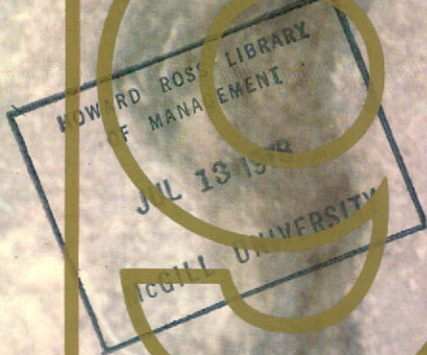


Svenska Handelsbanken

Annual Report

1977





**Svenska Handelsbanken
— 1977 highlights**



Cover:

Svenska Handelsbanken's Securities Account is a new way of saving money in shares. It is just as easy as saving in an ordinary bank account. The only difference is that the money you save is converted into units in Handelsbankens Aktiefond, one of the mutual funds sponsored by the Bank. The value of your savings follows the long-term trend of the stock market, which provides a chance of protecting your money against inflation. Like this mother, many parents open Securities Accounts for their children, contracting to deposit a certain amount each month.

The Bank, however, also offers many other services. We will highlight some of them on these pages.

Many people, like the couple above, have neither the time nor the necessary information to look after their investments. Instead they "hire" their own private adviser from Svenska Handelsbanken – in this instance Gustaf Hultbom, Stockholm.

What we call Fiduciary Trust Service is basically an undertaking by the Bank and its financial and legal advisers not only to handle all the routine work connected with the administration of a security portfolio, but primarily to protect our clients' interest in financial and tax matters.

SVENSKA HANDELSBANKEN IN 1977

This is a brief presentation of the Bank's business and results for 1977 and a description of how we have tried to solve the problems we have met. The full accounts are available on request.

CONTINUING GOOD RESULTS

In the table below you find a summary of the results for the year, and, for comparison, the corresponding figures for the four preceding years.

Income. During 1977, the Swedish Central Bank pursued a very restrictive monetary policy. This policy had the effect that the commercial banks could only slowly expand their domestic business. On average, deposits rose by 3.6%.

Consequently, money was in short supply during the year, and the interest level was higher than during the preceding year. This meant that the cost of the funds at our disposal – the deposits – rose correspondingly. As the authorities force us to tie up a very large proportion of these funds in bonds carrying interest at a fixed rate, our margin deteriorated.

Under such circumstances our income might perhaps be expected to fall. Instead of falling, however, it has risen by 12%, and for several reasons.

First, our subsidiaries and our property administration have shown significantly improved results. Altogether, income from these sources rose by 45%.

Secondly, and particularly important, our international business has expanded strongly, producing significantly better results than earlier.

During 1977 it was necessary for Swedish business and for the Swedish Government to borrow large amounts abroad, which served to balance the large deficit on our balance of current payments.

Svenska Handelsbanken has been very successful in assisting Swedish borrowers in this context. This has increased the earnings of our international business and of our finance and investment business. The borrowing from other countries has to a great extent been achieved through the refinancing abroad by the Swedish commercial banks of their credits to Swedish business. During 1977 Svenska Handelsbanken has refinanced credits abroad totalling Kr. 2000 million, almost as much as all other Swedish commercial banks together.

Trading in currencies has also been very active during the year, which has contributed to the fine results of our international business.

Millions of kronor	1973	1974	1975	1976	1977	Change 76-77
Operating income	783	882	1 039	1 212	1 358	+ 12%
Operating costs	444	479	565	666	776	+ 17%
Operating surplus	339	403	474	546	582	+ 7%
Extraordinary income net . .	-9	-6	3	22	3	
Surplus for allocation	330	397	477	568	585	+ 3%

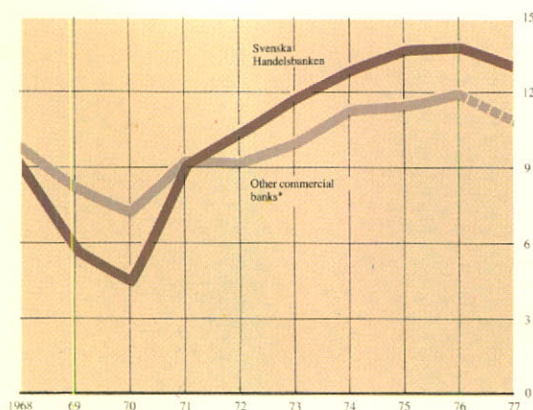
Costs. The dominating item here is staff costs, i.e. salaries and various social charges. Calculated per employee these costs rose by 16%. As the number of employees at the same time fell by 1%, our cost increase was 15%. Other costs rose at a somewhat faster rate, raising the total cost increase to 17%.

WE STAY AHEAD

Ever since 1971 Svenska Handelsbanken has had a return on capital and reserves significantly higher than the average for other listed commercial banks. As shown by the chart below, 1977 was no exception in this respect.

Both for us and for the other banks the return declined, however, as the capital and reserves grew faster than the surplus.

Net profit as % of capital and reserves



*The figure for 1977 is estimated

Net profit is the operating surplus less tax at the standard tax rate. By capital and reserves is meant the reported capital, adjusted for the 1977 rights issue, plus one-half of the loss reserves over the year. The state-owned Post- och Kreditbanken is not included under "Other commercial banks", nor are Sparbankernas Bank or Föreningsbankernas Bank, whose businesses are of a special nature.

In connection with jubilees and the retirement of employees after many years of service it is considered appropriate to emphasise that the fine results of the company are very much due to efforts beyond the call of duty on the part of a large number of employees. This may sometime lead to gracious exaggerations.

As far as Svenska Handelsbanken and its undeniably fine results are concerned, the



When building a house of your own, it pays to get in touch with the Bank at an early stage – even before you buy the site. If a correct estimate of the full cost of the house including the site has been made you can discuss a construction credit with the Bank. Lennart Altrichter has just moved into his own house, built with the aid of a construction credit from Svenska Handelsbanken. Sune Nyberg from our Täby Office (left) finds that the house will soon be completed.



In Stockholm Svenska Handelsbanken has a department with practical experience of business management in most fields: marketing, production, administration, finance and taxes. We call it the Industrial Development Department. The department concentrates mainly on providing views and advice in situations where the businessman needs "someone to talk to". The picture shows a visit to Bruuns System AB, Filipstad – whose main product line is forestry machinery – by Erland Dahlström (right) of the Industrial Development Department, a specialist on industrial matters.

risk of any such exaggeration is small. In our very decentralised organization, good results very much hinge on the efforts of all the thousands of employees at our branch offices and the various Head Office departments.

When the employees do an exceptionally good job, it is reasonable that they receive a share in the fine results achieved. And so they do through transfers from time to time to the Oktogonen Foundation. We expect that the results for 1977 will give rise to a transfer no smaller than for the last few years.

At year end the foundation had assets of some Kr. 100 million and after this year's transfer it will reach about Kr. 120 million. This, in turn, means that an employee who retires after working with the Bank throughout the existence of the foundation will receive more than Kr. 25 500 from the foundation. To date, Kr. 4.6 million have been disbursed by the foundation to retired employees of the Bank.

The Oktogonen Foundation is now one of the largest shareholders of the Bank and is gradually increasing its holding. It also holds a 20% interest in our subsidiary company Svenska Finans AB, and last year it invested Kr. 4.4 million in this company in connection with the acquisition by Svenska Finans of Kundkredit AB.

THE TORE BROWALDH FOUNDATION

The Board has resolved to allocate Kr. 5 million to a foundation for education and research in the social sciences. In honour of Mr. Tore Browaldh and his distinguished service to the Bank over the years, the Board resolved that the foundation shall bear Mr. Browaldh's name.

ALLOCATION OF SURPLUS

The total funds available amount to Kr. 585 million. The table below shows the allocation of these funds as proposed by the Board.

Continued strengthening of reserves.

During a number of years, Svenska Handelsbanken has allocated a very large part of the operating surplus to reserves. As a consequence, our reserves against losses after this year's allocations total Kr. 2 268 million. In view of the considerable strains to which Swedish companies are and in the future will be exposed, it is a source of satisfaction that the Bank has reserves which should enable us to meet the situations that may arise.

The dividend. The amount to be distributed increases from Kr. 82 million to Kr. 89 million. Dividends to the owners of index shares and preferred shares account for Kr. 6.7 million. The Board proposes a Kr. 16 per share dividend on the common shares. In the preceding year it was Kr. 17.50, which corresponds to Kr. 15.31, after adjustment for the bonus issue.

PROBLEMS AND OPPORTUNITIES

It is natural for shareholders to be interested in information not only on how the Bank has progressed during the financial year just ended, but also on what the results may be for the current year.

I am not going to present any forecast of the Svenska Handelsbanken results during 1978, however, as such a forecast would be most uncertain. Instead, I will attempt to describe the types of problems which preoccupy us and how we are trying to tackle them.

Millions of kronor	1973	1974	1975	1976	1977
Allocations to working environment reserve and special investment reserve	10	33	—	—	—
Allocations to reserves for loans, bonds and foreign exchange	199	231	284	360	370
Taxes	55	58	92	90	90
Dividend for the year	66	66	75	82	89
Balance carried forward	0	9	25	36	36
Total	330	397	477	568	585

The art of adjustment. Central Bank policy determines how much the banks may expand their operations, i.e. how much credit we may extend. It also determines the price level, both as regards the general level of interest and the interest margin.

Should a bank try to deviate from the policy the Central Bank wants us to pursue, this may have very unfortunate consequences for that bank's profits. The bank will then incur quite severe interest penalties, penal charges, etc.

All banks, therefore, try as best they can to conform to the Central Bank's guidelines. A very large part of our time is spent in achieving this. Unfortunately this is quite hard to accomplish.

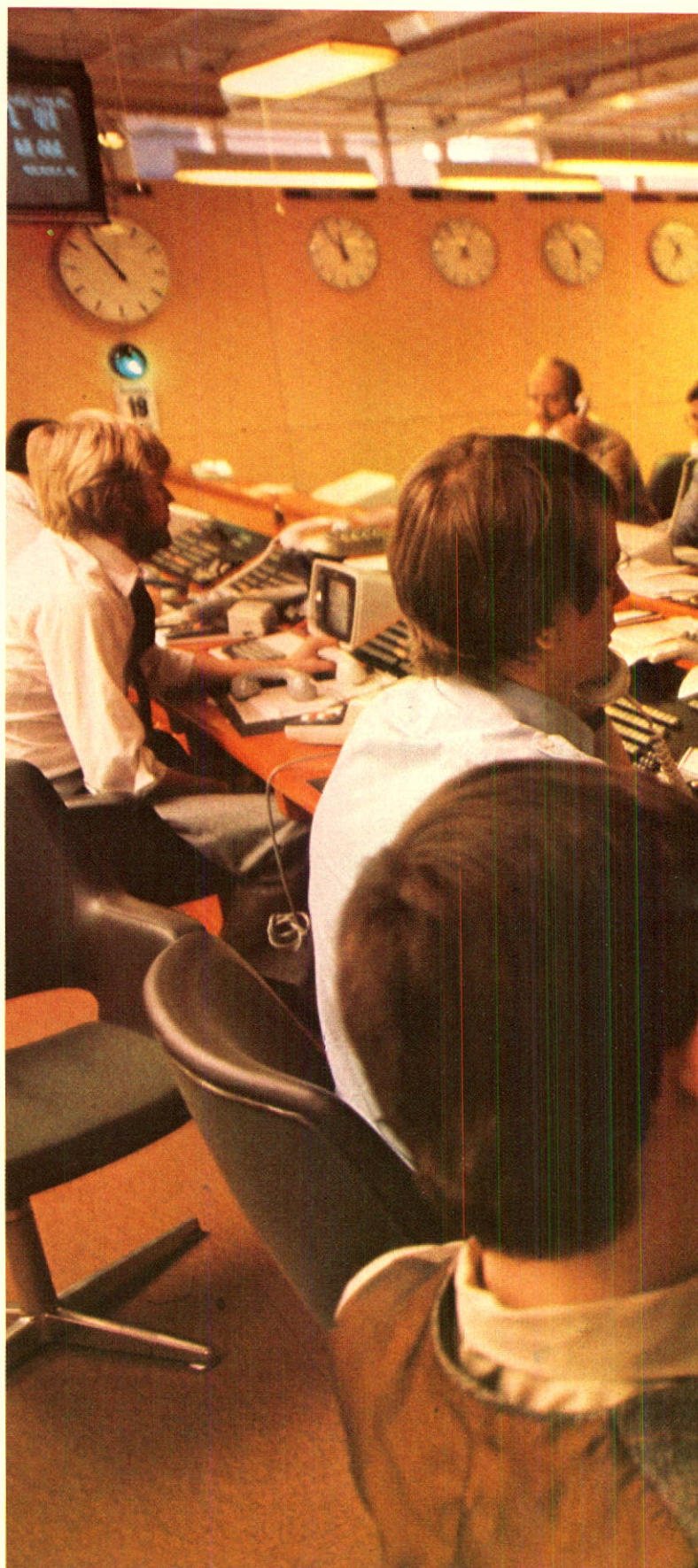
The credits we grant today may perhaps be drawn on by our customers only in three or six months time. We therefore have to know the Central Bank's policy not only now, but six months from now.

The Central Bank is basing its policy on its conception of how the money supply will develop in the economy. This development, in turn, is partly dependent on changes in the balance of payments and the Government budget. The Ministry of Economic Affairs, the National Institute of Economic Research, etc., produce forecasts on such changes. However, these forecasts are notoriously off the mark. At the Bank we must, therefore, among other things try to estimate the errors in these forecasts. Moreover, we have to decide how the Central Bank is likely to react when the errors become obvious. The Central Bank policy is, of course, determined not only by purely economic considerations. Political considerations are important, too.

Let me illustrate. As a result of "voluntary agreements", the banks are forced each year to acquire housing mortgage bonds in very sizable amounts. This means that we are losing money. How much we lose on the bond purchases, however, depends to quite an important extent on *when* during the year the bonds are acquired. If we feel that the Central Bank will reduce its discount rate and the long-term interest rates in a couple of months, we obviously should get on with the buying.

At Svenska Handelsbanken we hold housing mortgage bonds totalling nearly Kr. 5 000 million. An improvement in yield by a mere tenth of one per cent means that our income increases by Kr. 5 million a year. Our skill, or the lack of it, consequently has a considerable impact on our earnings.

Another set of problems, however, takes up even more of our time.



Those doing business with other countries – particularly in times of unrest in the foreign exchange markets – need to protect themselves against currency losses.



One way of doing this is through the forward market. The Bank's Foreign Exchange Department in Stockholm carries out foreign currency business for our

customers every day and throughout the world.



Factoring and leasing are forms of financing designed to release funds which would otherwise be tied up in receivables and fixed assets. Svenska Handelsbanken's subsidiary company Svenska Finans – with offices in Stockholm, Göteborg

and Malmö – helps to finance business through factoring, leasing, etc. Bo Peters of Svenska Finans (left in the picture) discusses a leasing problem with a computer supplier, Wang Skandinaviska AB, Solna.



When doing business with other countries, it is important to choose the correct method of payment. For instance, an exporter frequently has to make sure at an early stage – perhaps even before production is started – that he will get paid by the buyer. In such cases a documentary credit is the best form of payment.

The picture shows representatives of the marketing and financial departments of Fagersta Secoroc AB – which chiefly exports rock drilling products throughout the world – listening to Kaj Cervin, head of the Documentary Credit Export Group, Stockholm, who demonstrates how the documentary credit should be used to secure payments for deliveries.

Selecting and training managers. At Svenska Handelsbanken we have nearly 600 persons in charge of our various operating units. In addition there are some 50 persons in charge of various specialist and service departments at the Head Office.

It is of overriding importance to the Bank's way of functioning that all these positions are held by really capable and well trained persons. The difference between a unit led by a really good manager and a unit whose head is not up to the mark is remarkable.

It is therefore natural and necessary that we constantly engage ourselves with the problem of locating and developing good managers.

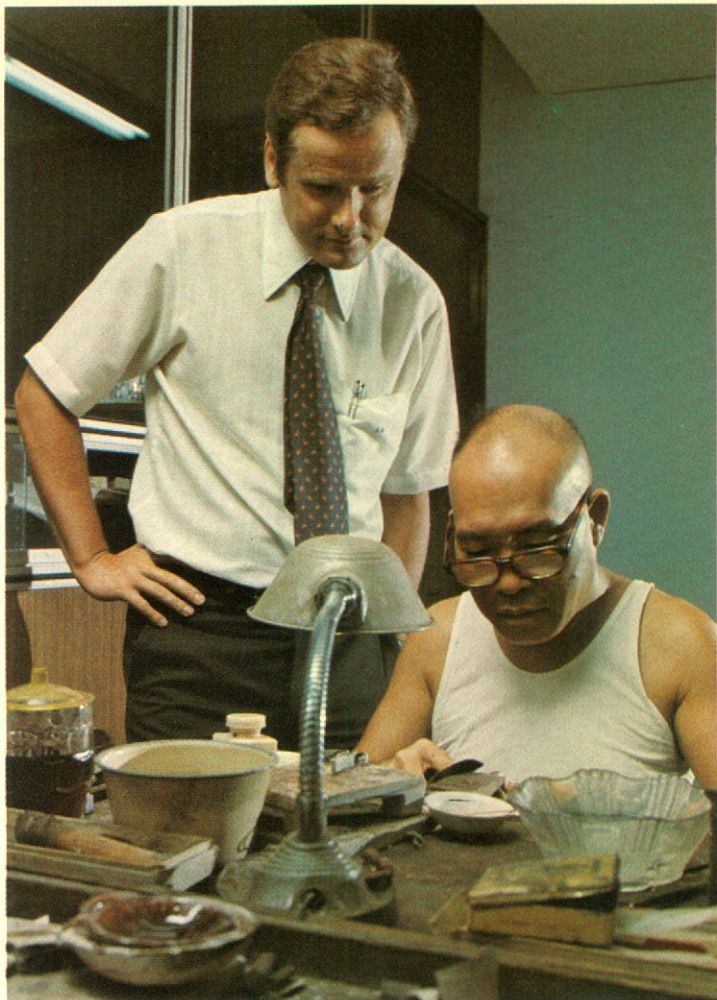
Unfortunately there is no simple and sure method of determining whether or not a person has the makings of a really good manager. Instead we are forced to rely, for better or worse, on the ability of ourselves or others to judge characters. Even if we take a lot of care and effort over selection and engage a wide range of people in this work, we are therefore, unfortunately, liable to make mistakes.

Mistakes may also have been made earlier. The problem must then be dealt with in some way. It is not fair to those working with a less suitable manager, nor to the manager himself, to allow the situation to continue. To the manager this means that he always feels not quite up to the job, which may make him unhappy and can lead to an even poorer performance.

It is, however, no easy task to solve this kind of problem. It is of course important that it is done in such a way that the manager concerned gets the opportunity to do something he is better able to tackle, and which consequently can provide better job satisfaction for him.

Transfer problems frequently require a lot of time. It is natural, however, that plenty of time is spent on such matters, and that executives at the Bank take a personal interest in them.

Being a manager means getting a group of people to work efficiently together and do this happily, so that they find their jobs satisfying and get an opportunity to develop themselves and their best abilities. This is no easy task, and we are therefore very actively engaged in trying in various ways to help our managers to develop their qualities of leadership. In particular we have felt the need to try to develop ourselves, i.e. the



International business always involves a bank, sooner or later, as the transactions are frequently very complicated.

Through its international contacts, its associated banks and its representative offices in various parts of the world, and through special Area Managers at home, the Bank monitors market developments in various countries and continents. Mr. Jörgen Setterberg, Singapore, is in charge of contacts between the Nordic countries and the Far Eastern markets.

older generation today holding leading positions in the Bank.

There is a multitude of authoritarian traditions and patterns of behaviour in banking that have to be broken. The best way to succeed is probably to start from the top. For a number of years, therefore, we have worked with development activities for top management and management teams of the Bank.

When you have been a manager for a long time it is a somewhat disquieting thought to expose yourself and your management style to assessment and analysis, and to do this together with your closest subordinates. I will not pretend that our activities in this area were immediately met with any real enthusiasm. They are today, however, which is of course very much a result of the way in which the program has been conducted by the experts engaged in it.

Teamwork training is carried on at all levels within the Bank, and in the past few years we made a particularly big effort in this field, involving all employees of our Regional Units.

We have already been able to determine that this work has released a fund of experience and ideas which previously had not been tapped, and that many more people in the Bank have been able to gain a sense of dedication to their jobs. We feel that one of the most important tasks in the Bank is this development work, and that it will have an important impact on the bottom line.

Won't the Bank lose money? Swedish business and particularly Swedish industry is facing difficulties and is incurring losses which for major companies may involve hundreds of millions of Kronor annually. We must go back to the crises of the twenties and thirties to find something similar. Won't this lead to heavy losses for the Bank and to poor results?

To date, this has not been the case. Although the Bank's customers include companies which have been in considerable trouble, in some instances going bankrupt, our losses have been limited.

I feel it is likely that we may incur heavier losses in the future than we have done so far. However, I do not think there is any risk that they will be of a size to seriously affect the position and results of the Bank. There will



Securities and other valuable objects should not be kept at home. It is best to leave them in a bank's safe deposit box. Svenska Handelsbanken offers safe deposit boxes of various sizes and prices. The cost is deductible for income tax purposes.

be no repeat performance of the twenties, when Svenska Handelsbanken, among others, got into serious difficulties.

The major difference between the situation today and that of the twenties is that banks now have quite another policy. Swedish bankers learnt a great deal at that time. So did the authorities. The Swedish banking legislation is in many respects formulated so as to prevent the kind of expensive mistakes committed at that time.

The banks also have very much larger reserves than in those days. Therefore, we are in a much better position to absorb losses.



SIGAB – a subsidiary of Svenska Handelsbanken – administers some 30000 older mortgage credits totalling Kr. 6000 million, but is nowadays mainly engaged in single family home mortgage credits in connection with purchases and modernizations.

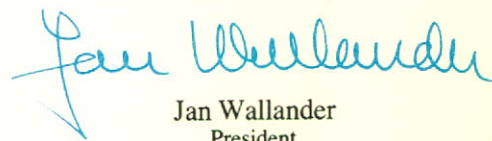
In the picture the president of SIGAB, Mr. Olov Ernsell (middle) discusses a loan application with his associates Nils Bergholm, Hans Drott and Karin Claeson.

Looking at our loss experience in the seventies, we can also see that the actual losses in many cases were very much smaller than we originally dared to hope. During 1977 we were able to get a fuller picture of the Herstatt engagement. At the time, we made a provision of Kr. 18 million, which we then feared would be the loss. We now know that the final loss will not exceed Kr. 3.8 million. There are other such cases.

Behind this happy trend, however, is a lot of effort, and all the work we have had to spend represents a cost that does not show in conventional accounting. This cost is considerable, particularly because highly qualified staff at the Bank has to devote much time to such "unproductive" activities.

Both for this reason and because any hasty winding-up of an activity represents a defeat, leading officers of the Bank spend a lot of time in trying to foresee the difficulties and help companies to find constructive solutions to approaching problems. We regard this as an immensely important part of our activities.

Stockholm, February 1978


Jan Wallander
President

SUMMARY OF BALANCE SHEET, DECEMBER 31

Millions of kronor	1973	1974	1975	1976	1977
ASSETS					
Cash	372	461	720	817	810
Domestic financial institutions	679	2 298	995	1 281	1 407
Foreign banks	3 062	4 087	4 510	4 625	5 391
Treasury bills and bonds	5 678	5 921	7 031	6 770	7 386
Loans	13 593	15 148	17 602	19 806	23 878
Sundry accounts	970	1 321	1 319	1 165	1 056
Shares	188	209	214	245	277
Real estate and equipment	237	244	277	294	313
Total	24 779	29 689	32 668	35 003	40 518
LIABILITIES AND CAPITAL					
Deposits	18 217	19 750	20 718	21 388	23 659
Domestic financial institutions	1 154	2 726	1 700	2 589	2 598
Foreign banks	2 005	2 854	4 252	4 822	6 849
Long-term borrowing	1 320	1 906	2 316	2 653	3 221
Sundry accounts	487	717	1 706	1 265	1 455
Reserves	729	860	1 066	1 333	1 659
Capital	867	876	910	953	1 077
Total	24 779	29 689	32 668	35 003	40 518



Most people drop in at the Bank to deposit – or withdraw – money from their bank account. As here with Eva Tärnström at our Högdalen Office.

Svenska Handelsbanken 1977

Annual Report and Auditors' Report

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Svenska Handelsbanken 1977
Some basic figures

	1977	Change from 1976
Position on December 31, mill.kr.		
Total assets	40 518	+ 5 515
Loans	23 878	+ 4 072
Deposits	23 659	+ 2 270
Capital and reserves	1 077	+ 124
Result, mill.kr.		
Operating income	1 358.0	+ 145.8
Operating costs	776.1	+ 110.2
Operating surplus	581.8	+ 35.6
Extraordinary income net	2.9	- 18.6
Allocation to reserves	370.0	+ 10.0
Taxes	90.0	=
Net profit	124.8	+ 7.0
Offices and staff		
Number of offices, Dec. 31	475	=
Average number of employees	4 703	- 30
Svenska Handelsbanken Group, mill.kr.		
Total assets	48 367	+ 6 528
Loans	32 156	+ 5 096
Deposits and borrowing	33 574	+ 3 466
Operating surplus	676.1	+ 72.8
Proposed dividend for the year, kr.		
On common shares	16.-	+ 0.69 ¹
On index shares	6.25	.
On preferred shares, series A	4.50	=
On preferred shares, series B	6.-	=

¹The dividend for 1976, Kr. 17.50, corresponds to
 Kr. 15.31 after adjustment for the bonus issue.

To the Shareholders of Svenska Handelsbanken

The Board of Directors of Svenska Handelsbanken hereby presents the Annual Report for 1977, the Bank's 107th year of operations.

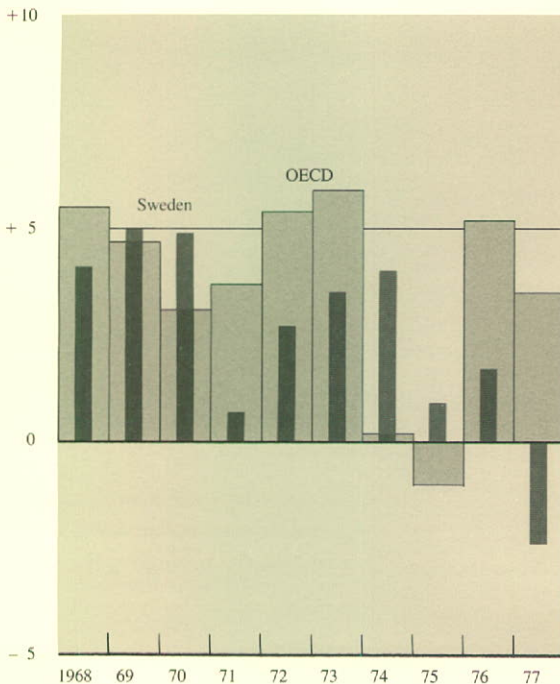
The General Economic Background

In 1977 the Swedish economy experienced falling production and demand, a continued high inflation and further deterioration of the balance of payments. Business profits fell sharply, contributing to a weakening of investment activity. In order to improve the competitive position of Swedish industry, the Swedish Krona was devalued on April 1

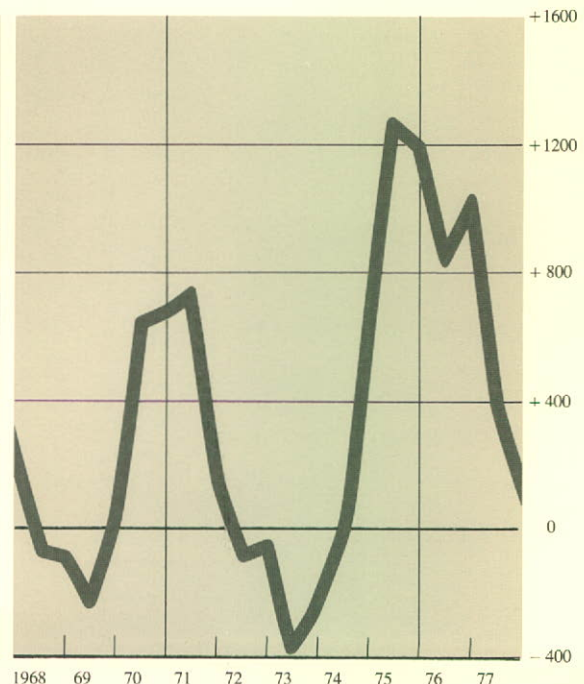
by 6% and on August 29 by another 10%. At the latter devaluation Sweden abandoned the European currency "snake". Since then, the aim has been to maintain the value of the Krona as against a weighted average or "basket" of the 15 most important currencies.

Economic policy was primarily designed to maintain the level of employment. In view of the rising external deficit, however, the Government found it necessary to restrict private consumption. On June 1 the value added tax was therefore raised by some 3 percentage points to 20.63%. Taxes on petrol, alcohol and tobacco were also increased.

Growth of Gross National Product
Volume change in per cent



Sweden: Stocks of finished products in manufacturing
Semiannual changes, seasonally adjusted.
Millions of kronor, 1968 prices



The restrictive monetary policy introduced in 1976 was continued during 1977. The reason given for this policy was the growing balance of payments deficit, which had to be financed by borrowings abroad.

The official discount rate, which had been raised from 6% to 8% on October 3, 1976, remained unchanged through 1977. The credit ceiling for commercial banks introduced in October 1976, applied through March 1977. The Central Bank then issued a recommendation to the effect that commercial bank credits – excluding credits for residential construction and credits refinanced abroad – should not rise by more than 6% over the six months from April to September. Consumer credit was to be sharply restrained.

Commercial bank liquidity deteriorated during the first eight months of the year, due to weak growth in deposits. This deterioration caused the Central Bank to cut the banks' liquidity ratios as from April by 2 percentage points and as from August by another 2 percentage points. This reduction, however, did not match the actual deterior-

ation in bank liquidity. The penalty charge imposed on banks unable to meet the liquidity ratio requirement was raised in March from 4% to 8%. From April to September the penalty charge was levied only when a bank exceeded the recommended credit ceiling. Towards the end of the year, bank liquidity improved significantly.

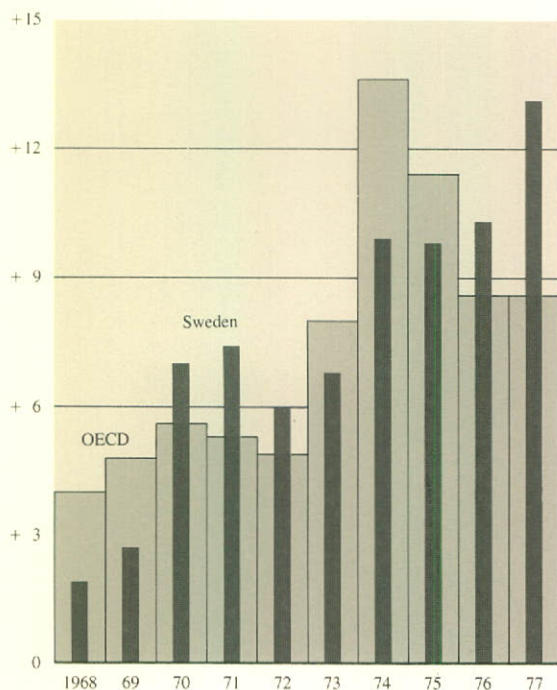
Cash reserve requirements for commercial banks were raised on March 10 from 2% to 4% of deposits. The increase was temporary and intended to neutralize the large increase in bank liquidity expected in April and May, when the Government normally runs a large deficit. In mid May the cash ratio requirements were again reduced to 2%.

The penalty interest levied on bank borrowings from the Central Bank was reduced on May 6 from 11% to 10% (2% over the official discount rate).

Provisions regarding the management of Government funds were changed to the effect that private commercial banks are now able to compete for Government banking business.

Consumers prices

Change in per cent, annual average



Budget deficit

Billions of kronor



Svenska Handelsbanken – A Review of Operations

Deposits rose by Kr. 2300 million

Over the year deposits at the Bank rose by Kr. 2300 million, or 11% to Kr. 23 700 million. As a monthly average the increase was only 2%. The reason for this is that most of the growth occurred towards the end of the year as a result of an inflow of foreign exchange and a rising Government deficit. The rate of growth of deposits approximately matched the average for other commercial banks.

As for all banks deposits from the household sector grew less than during the last few years. A similar sluggishness was evident during the 1969–70 period of tight credit.

Deposits from the business sector fell significantly until the end of August but recovered rapidly during the autumn. For the year as a whole there was an increase of 17%.

Competition for deposits was keen. Owing to the difficulties on the part of some commercial and savings banks to meet the

liquidity ratio requirements, those banks offered high rates of interest for large-scale deposits. This forced all banks to raise the interest level for this type of deposit. Towards the end of the year the deposit rates again dropped as a consequence of the improving liquidity in the banking system.

Credits in foreign currencies rose sharply

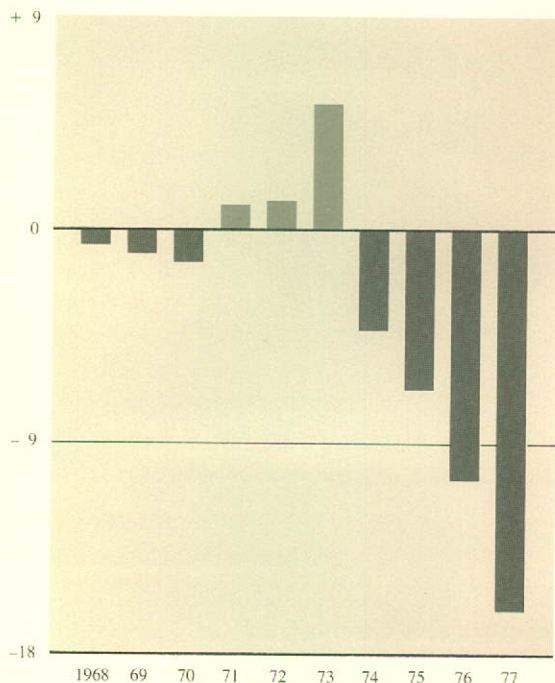
The Bank's outstanding credits rose during the year by Kr. 4 100 million or 21% to Kr. 23 900 million. As a monthly average the increase was 17%.

Half the increase, Kr. 2 000 million, was accounted for by credits in foreign currencies, which were not subject to the credit restrictions. The Bank pursued this line of credit business very actively. The increase in credits for other commercial banks was 15% over the year and 12% as a monthly average.

As in previous years, the commercial, savings and cooperative banks undertook to supply required credits for residential construction. The Bank during 1977 granted a total of Kr. 1 900 million of credits for this purpose, an increase of 18% on 1976.

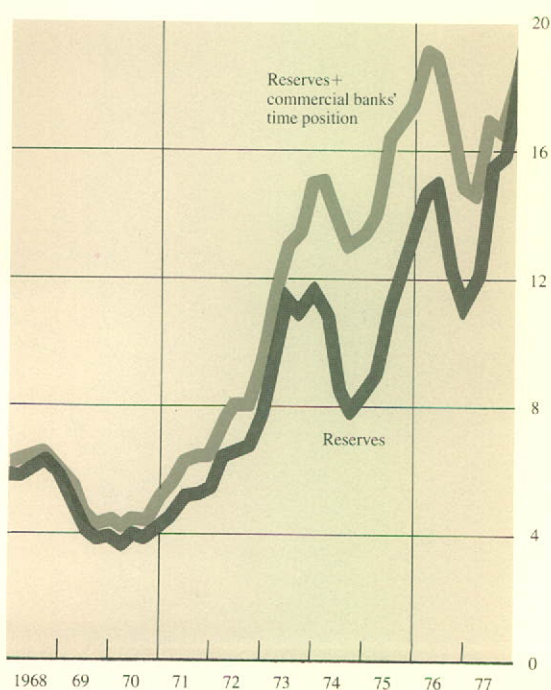
Balance of current payments

Surplus (+) or deficit (–) in billions of kronor



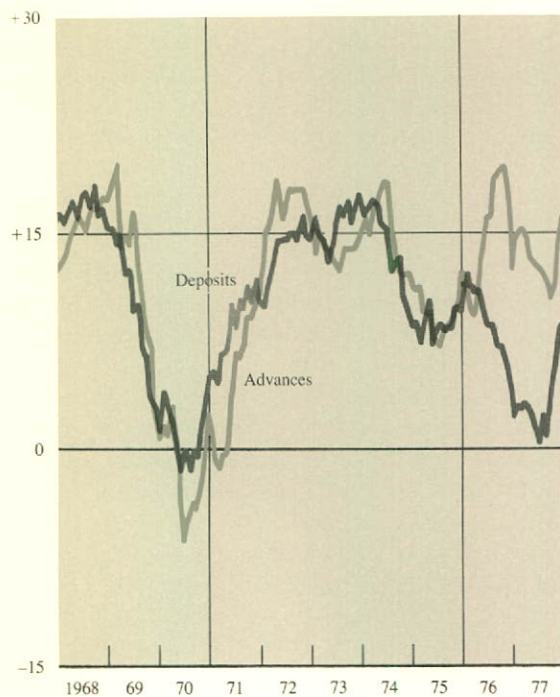
Gold and foreign exchange reserves

Billions of kronor



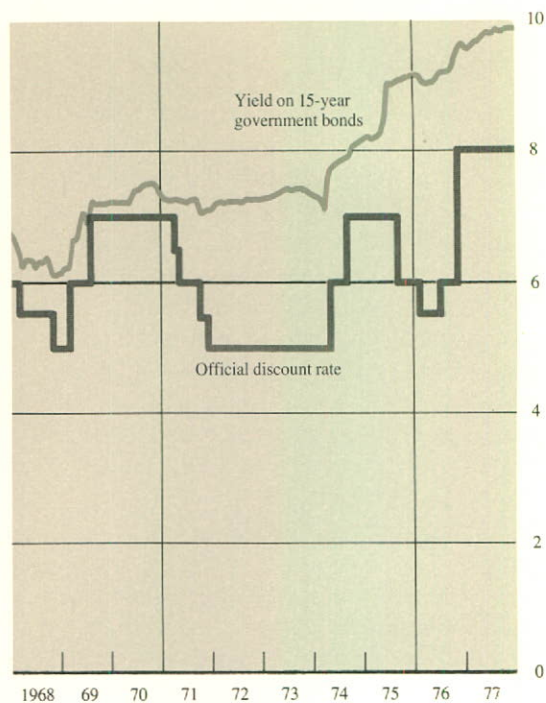
Commercial banks' deposits and advances

Change from same month previous year.
Per cent



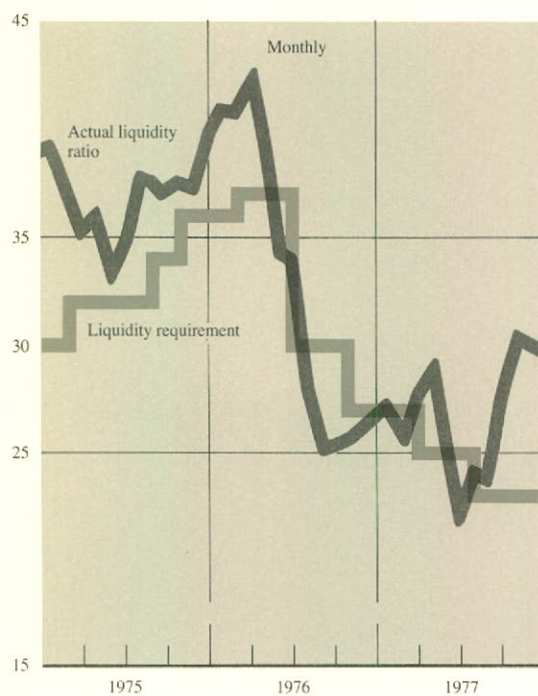
Interest rates

Per cent



Svenska Handelsbanken: Liquidity

Per cent



The decline in mid 1976 (7 percentage points)
due to change in methods of calculation

Total assets, deposits and loans

Millions of kronor at year-end ¹	1976	1977	Percentage change from 1976
Total assets			
Svenska Handelsbanken	35 898	41 186	+ 14.7
All commercial banks	161 037	185 270	+ 15.0
Svenska Handelsbanken as per cent of total	22.3	22.2	
Deposits			
Svenska Handelsbanken	20 334	22 206	+ 9.2
All commercial banks	100 653	109 235	+ 8.5
Svenska Handelsbanken as per cent of total	20.2	20.3	
Loans			
Svenska Handelsbanken	19 538	23 577	+ 20.7
All commercial banks	88 576	102 955	+ 16.2
Svenska Handelsbanken as per cent of total	22.1	22.9	

¹ According to Bank Inspection Board statistics. Amounts prior to crediting of interest etc.

Svenska Handelsbanken: Distribution of deposits and lending

September 30, 1977	Mill. kr.	Distribution in per cent	
		Svenska Handelsbanken	Other commercial banks
Deposits			
Public sector	1 324	6.2	10.3
Business ¹	5 692	26.8	25.8
Households	12 490	58.9	58.6
Other	895	4.2	3.6
Subtotal	20 401	96.1	98.3
Unspecified	825	3.9	1.7
Total	21 226	100.0	100.0
Lending			
Public sector	351	1.6	6.4
Business ¹	11 774	52.4	52.6
Households	9 298	41.3	37.3
Other	766	3.4	2.4
Subtotal	22 189	98.7	98.7
Unspecified	301	1.3	1.3
Total	22 490	100.0	100.0

¹ Including government-owned companies

The banking institutions also agreed to purchase mortgage bonds as required during the year. As a consequence, the Bank increased its holding of mortgage bonds by Kr. 518 million.

Credits in Swedish Kronor for other purposes than residential construction were subject to a ceiling during the first nine months of the year. The Bank's credits were kept within those limits. Over the year, this part of the Bank's outstanding credits rose by 12% to Kr. 16 800 million.

Liquid assets

At times, the liquidity of the Bank was strained, particularly at the beginning of the year and during the summer. The situation was the same for other commercial banks, mainly due to a strong outflow of foreign exchange at the end of 1976 and during June, July and August. Following the devaluation at the end of August, the picture changed dramatically. The Bank's liquid assets rose during the last four months of the year by over Kr. 2 800 million. Over the year the increase was Kr. 1 900 million or 30%.

During the first nine months of the year the Bank was unable to meet the liquidity ratio requirement of the Central Bank. The Bank was not, however, subject to any penalty charges, as the Bank kept within the credit ceiling recommended by the Central Bank. The Bank's position in relation to the liquidity ratio requirements is shown in the chart on page 6.

Most of the liquid assets of the Bank are tied up in bonds. The bond portfolio, which has a nominal and acquisition value of Kr. 8 000 million, is carried at a book value of Kr. 7 400 million. Of the bond portfolio, Kr. 4 900 million or 61% consists of long-term mortgage bonds.

Capital base

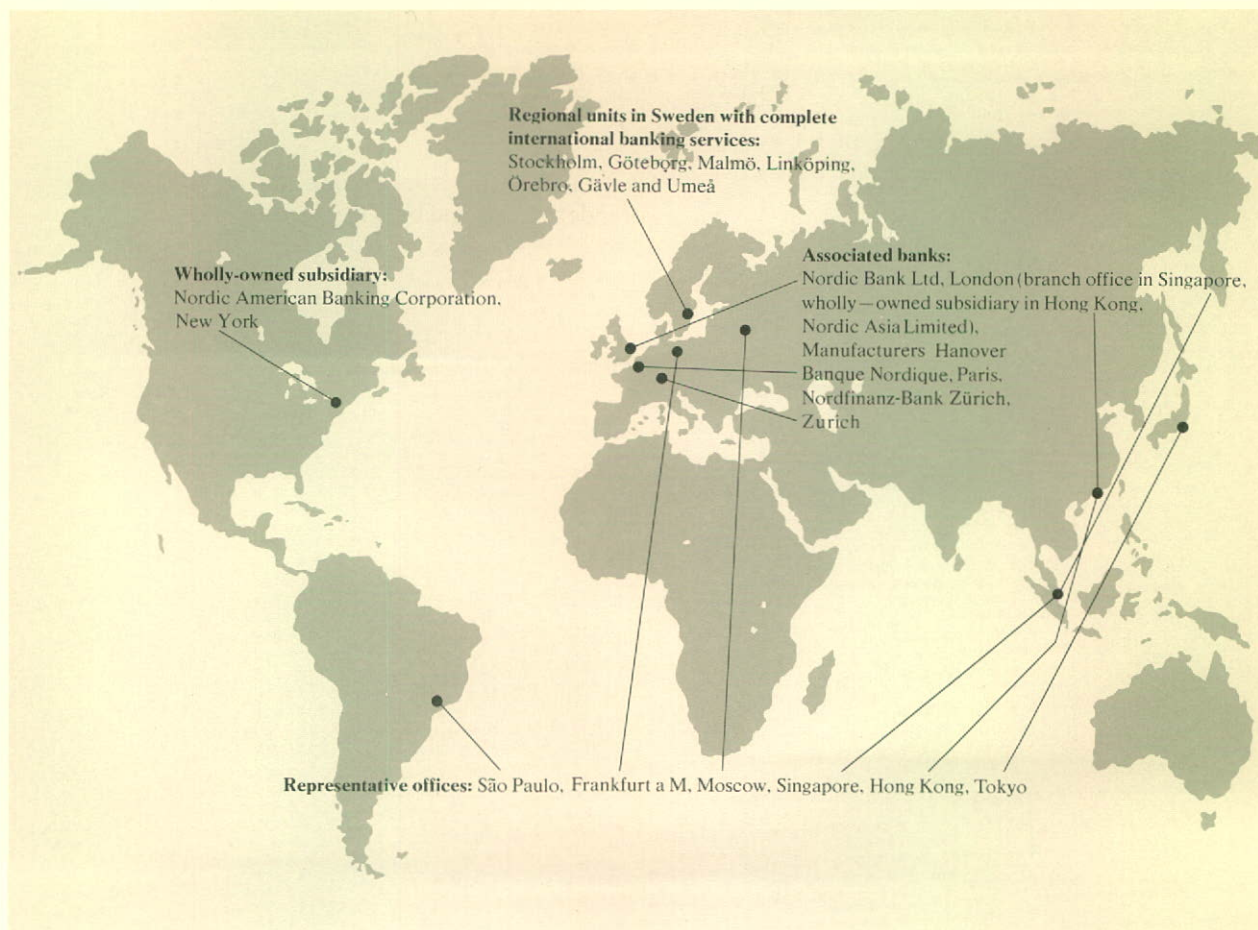
The Bank's capital base, i.e. shareholders' equity and subordinated debt, rose during the year by Kr. 81 million through an issue of index shares and by Kr. 100 million through a new debenture loan. On the other hand the capital base was reduced by amortizations of outstanding debenture loans. At the end of 1977 the capital base amounted to Kr. 1 532 million. The allocations of the operating surplus proposed to the 1978 Shareholders Meeting would increase the capital base by Kr. 36 million to a total of Kr. 1 568 million.

The capital base requirement of the Banking Act was reduced by 10% as from June 30, 1977. At the end of the year the capital base requirement under the Banking Act for the Bank was Kr. 1 350 million, calculated according to the following distribution of the assets of the Bank:

Risk category	Assets Mill. Kr.	Capital base requirement	
		%	Mill. Kr.
A	13 436	0	0
B	12 219	1	122
C	2 566	4	103
D	13 682	8	1 095
	Total		1 319
	90% of total		1 187
Shares etc. in certain banking and financial institutions		100	163
Total capital base requirement			1 350

Provided the General Meeting of Shareholders accepts the profit allocations proposed by the Board of Directors, there is thus a capital base surplus of Kr. 218 million. Any additional capital base requirement in 1978 may be covered by the issue of debenture loans.

Svenska Handelsbanken on the world map



Rapid expansion of international business

The Bank's international business continued to grow rapidly as did its contribution to the Bank's earnings.

A factor contributing to the rising activity was the growing demand from business and Government for international financing. Currency trading was also very active, partly because of considerable swings in the exchange rate of important currencies.

The Bank played a leading part in arranging eurocurrency credits for Swedish companies and was able to give increasing assistance to exporters by providing export credits tailored to each individual transaction. Together with two other Swedish commercial banks, the Bank participated in the management group for the eurocurrency borrowings by the Swedish Government.

In order to minimize customers' currency exposure on foreign currency borrowing the Bank developed a new type of credit. Instead of a single currency credit, customers are offered a combination of six of the more

important currencies in the Central Bank's "currency basket". The Bank's "basket currency" may be used for both short- and medium-term financing.

The demand for short-term credits was very strong throughout the year. In accordance with the current exchange control regulations, the Bank has assisted in the arrangement of such credits.

The Bank's wholly-owned subsidiary in New York City, the Nordic American Banking Corporation (NABC), reported continued growth of business and surplus. NABC's operations mainly cover financial and related services for the North and South American subsidiaries of Swedish and other Nordic companies.

Subject to the approval by the authorities, the Bank during 1978 will open a wholly-owned subsidiary in Luxembourg. The new subsidiary will primarily assist Swedish companies in short- and medium-term international financing.

Bond and debenture loans during 1977

Swedish issues in which the Bank has participated

Borrower	Date of loan	Interest %	Maturity, years	Amount mill.kr.
Telefon AB L M Ericsson	Feb. 10, 1977	9 ³ / ₄	15	100
*Gullfiber AB	Apr. 10, 1977	9 ⁷ / ₈	15	25
*Södra Skogsägarna AB	Apr. 10, 1977	10	15	100
Munksjö AB	May 10, 1977	9 ⁷ / ₈	15	50
Gränges Essem AB	May 10, 1977	9 ⁷ / ₈	15	100
*Supra AB	May 10, 1977	9 ⁷ / ₈	15	30
AB Statens Skogsindustrier	June 10, 1977	10	15	75
*Volvo BM AB	Nov. 10, 1977	9 ³ / ₄	15	75
*Obbola Linerboard AB	Dec. 10, 1977	9 ⁷ / ₈	10	65
Statsföretag AB	Dec. 10, 1977	9 ³ / ₄	15	150
*AB Volvo	Jan. 10, 1978	9 ³ / ₄	15	100
Forsmarks Kraftgrupp AB	Jan. 10, 1977	10	22	150
*Forsmarks Kraftgrupp AB	Mar. 10, 1977	10	22	150
*AB Svarthålsforsen	May 10, 1977	9 ⁷ / ₈	20	75
Forsmarks Kraftgrupp AB	July 10, 1977	10	22	150
Forsmarks Kraftgrupp AB	Sep. 10, 1977	10	22	150
*Bålforsens Kraft AB	Sep. 10, 1977	9 ⁷ / ₈	20	75
Oskarshamnsverkets Kraftgrupp AB	Oct. 10, 1977	9 ⁷ / ₈	20	75
*Forsmarks Kraftgrupp AB	Nov. 10, 1977	10	22	150
*Östersunds Elekriska AB	Dec. 10, 1977	9 ⁷ / ₈	15	20
Forsmarks Kraftgrupp AB	Dec. 10, 1977	10 ¹ / ₈	22	150
AB Svensk Exportkredit	Mar. 10, 1977	9 ³ / ₄	7	100
Svenska Skeppshypotekskassan	June 10, 1977	9 ³ / ₄	15	75
Skeppsartens Sekundärlånekassa	June 10, 1977	10 ¹ / ₄	10	25
*AB Svensk Exportkredit	July 10, 1977	9 ³ / ₄	9	100
AB Svensk Exportkredit	Oct. 10, 1977	9 ³ / ₄	5	100
*Svenska Handelsbanken	Oct. 10, 1977	10	15	100
Svenska Skeppshypotekskassan	Dec. 10, 1977	9 ³ / ₄	15	75
Skeppsartens Sekundärlånekassa	Dec. 10, 1977	10 ¹ / ₄	10	25
Göteborgs Kommun	Apr. 10, 1977	9 ³ / ₄	15	50
Stockholms Läns Landsting	Apr. 10, 1977	9 ³ / ₄	15	50
Stockholms Kommun	June 10, 1977	9 ³ / ₄	15	50
*Göteborgs Kommun	Sep. 10, 1977	9 ³ / ₄	15	50
Stockholms Läns Landsting	Oct. 10, 1977	9 ³ / ₄	15	50
Stockholms Kommun	Nov. 10, 1977	9 ³ / ₄	15	50
Kommunlåneinstitutet AB	Nov. 10, 1977	10 ¹ / ₄	23	80

* Issues managed by the Bank.

Nordfinanz-Bank Zürich continued to strengthen its position in the Swiss and international capital markets. The consortium led by Nordfinanz-Bank placed Sfrs 140 million of bond issues on the Swiss market. Nordfinanz-Bank also did a considerable private placement business.

The Nordic Bank Limited, London, continued to grow and showed an increased sur-

plus. This Bank improved its position, not only in Europe but also in the Far East, where it has operations in Singapore and Hong Kong.

Mr. Jörgen Setterberg transferred from Svenska Handelsbanken's International Division to become new Head of the Nordic Bank's Far Eastern operations.

The capital of Nordic Bank was increased

Foreign issues managed or co-managed by Svenska Handelsbanken

Borrower	Date of loan	Interest %	Maturity, years	Currency	Amount in mill. of currency concerned
Kingdom of Sweden	Apr. 6, 1977	6½	7	DM	250
Kingdom of Sweden	June 15, 1977	7½	5	US\$	100
Kingdom of Sweden	June 15, 1977	8¼	10	US\$	100
Kingdom of Sweden	Nov. 10, 1977	8½	10	US\$	100
Kingdom of Sweden	Nov. 10, 1977	9	20	US\$	100
Kingdom of Sweden	Dec. 5, 1977	6	12	DM	200
Statsföretag AB	Jan. 18, 1977	7¾	5	US\$	40
Esselte AB	Jan. 26, 1977	8½	7	US\$	20
Statsföretag AB	Feb. 11, 1977	7	8	DM	100
AB Volvo	Feb. 15, 1977	8	10	US\$	35
Telefon AB LM Ericsson	Apr. 1, 1977	8½	12	US\$	30
AB Götaverken	Aug. 24, 1977	7⅝	5	US\$	40
AB Götaverken	Aug. 24, 1977	8⅛	10	US\$	40
Sandvik AB (convertible loan)	Oct. 27, 1977	6¼	10	US\$	35
Crédit Lyonnais	Jan. 28, 1977	floating rate	6	US\$	80
Norges Kommunalbank	Mar. 4, 1977	7	12	DM	100
Sundstrand Finance International N.V. ..	May 9, 1977	8¾	10	US\$	25
Imatran Voima Osakeyhtiö	June 13, 1977	8½	10	UA ¹	25
Norges Kommunalbank	Nov. 25, 1977	6	12	DM	200

¹Units of account

during the year through a share issue taken up by Copenhagen Handelsbank, which thus came to hold the same interest in Nordic Bank as the other three participating Scandinavian banks. This made the ownership of Nordic Bank largely identical with that of Nordfinanz-Bank Zürich, which facilitates a closer cooperation between the two banks.

Manufacturers Hanover Banque Nordique's position in the French credit market was strengthened and its results improved.

The finance and investment business

The finance and investment business had a satisfactory development and a number of new features were introduced in this area.

On the Swedish capital market bond and debenture loans totalling Kr. 27 300 million were issued in 1977 as against Kr. 27 900 million in the preceding year. Issues by business borrowers amounted to Kr. 4 300 million compared with Kr. 4 400 million in 1976. The Bank participated in such issues totalling Kr. 2 600 million (see list on page

10). The corresponding amount for 1976 was Kr. 2 200 million.

The first Swedish bond loan with an interest adjustment clause was issued under the Bank's management by Volvo BM AB. This clause provides that the coupon of the bonds may be raised or lowered every five years, depending on the coupon level for new ten-year Government issues prevailing on these dates.

Activities in the international capital market continued at a high level during 1977. The bank participated in the management groups for 19 international bond issues. These include the six issues for the Kingdom of Sweden and five issues for foreign borrowers. Two of the Kingdom's issues were launched on the American market with Svenska Handelsbanken as the managing Swedish bank.

A new feature in Swedish international financing was the Sandvik AB convertible bond issue with Svenska Handelsbanken as the leading manager. The \$35 million

ten-year issue is convertible into shares of Sandvik AB.

The Bank acted as underwriter in 260 issues representing an aggregate amount of approximately Kr. 60 000 million.

In the stock market turnover was lower than in the preceding year, partly because of lower prices. Over the year the stock market declined by 16%.

Mainly due to the depressed share prices, there were fewer new issues in 1977. Svenska Handelsbanken made a rights issue of index shares during the year.

The index shares, which represent an entirely new type of security, attracted a great deal of attention and were well received on the stock market. These shares were quoted at prices representing a direct yield of about 3.3%.

In recent years there has been a growing interest in convertible debt financing on the part of business. The Bank has played a prominent part in introducing such issues on the market. During 1977 the Bank arranged the issue of convertible bonds for AB Industri-värden and Investment AB Promotion.

In addition the Bank co-managed rights issues for Ahlsell AB and AB Bahco, and assisted in the offer by AB Electrolux to the shareholders of Husqvarna AB.

Alone or jointly with other banks the Bank assisted in bonus issues for the following companies:

Billeruds AB

Förvaltnings AB Hasselfors

Gunnebo Bruks AB

Investment AB Kinnevik

Sandvik AB

AB Skånska Cementgjuteriet

Svenska Handelsbanken

Handelsbankens Aktiefond, the mutual fund introduced by Svenska Handelsbanken in November 1976, has been well received in spite of the declining market. The number of fund shares sold since the fund was set up was about 180 000, representing a total amount paid of Kr. 20 million. The fund offers investors the opportunity of acquiring shares at the lowest possible risk by means of regular instalments. The fund is managed by Handelsbankens Fondförvaltning AB.

Organization, etc.

Appointments

As new Head of the Southern Norrland Regional Unit and Executive Vice President of the Bank as from November 1, 1977, the Board of Directors has appointed Mr. Jan Åsman, formerly Foreign Manager of the Stockholm City Regional Unit. Mr. Åsman succeeded Mr. Sven Boström who will take over management duties at the Central Credit Department.

Mr. Morgan Abrahamsson, Executive Vice President of the Bank, was appointed Head of the Central Administrative Department after Mr. Evert Bromell, who retired.

As new Head of the Central Auditing Department the Board of Directors has appointed Mr. Ulf Lignell, formerly Head of the Industrial Development Department. He was succeeded as Head of the Industrial Development Department by Mr. Göran Atterwall, formerly tax expert in the same Department.

Administration

The number of employees in terms of man years was 4 703. This represents a reduction by 30 persons compared with 1976. The number of permanent employees was 5 200 at the end of the year, of whom 1 225 or 24% worked part-time.

An intensive training program in bank marketing was carried out during the year. All staff within the Regional Units took part. Special attention was also given to managerial training and development.

Important steps to rationalize work were taken in the International Division. The computerised systems for international payments and collection went into operation. In September the Bank joined the international SWIFT payments system.

Branch network

The Bank's branch network at the end of the year comprised 475 offices. During the year one new branch office was opened while one office was closed down.

The Research Foundation

The Bank's Foundation for Social Science Research granted in total over Kr. 500 000 to 10 projects during 1977. Among the projects may be mentioned studies in the adaptation by multinational corporations to changes in exchange rate expectations, in the planning by business in a high inflation environment, and in the behaviour of Swedish commercial banks over the business cycle.

Subsidiaries

Sigab

As in the immediately preceding years, Sigab was active in providing financing for purchases and modernization of older single family houses. New credits for such purposes amounted to Kr. 110 million. As previously these operations were financed through placements of promissory notes.

In September 1977 the housing mortgage companies reached an agreement with the Central Bank to the effect that holders of bonds issued by these companies in 1968-72 would receive additional interest corresponding to the increase in interest on credits financed by the issue of such bonds.

The operating surplus for 1977 was Kr. 72.9 million, against Kr. 48.9 million for 1976. After allocation of Kr. 22 million to reserves, a transfer to the Bank of Kr. 25 million and taxes of Kr. 14.7 million, a net profit of Kr. 11.2 million was reported. Kr. 11.2 million was paid in dividends to the Bank.

At the end of the year Sigab's total assets amounted to Kr. 6 246 million, compared with Kr. 6 130 million at the beginning of the year.

Svenska Finans AB

The operations of Svenska Finans continued to show a favourable trend during 1977. In factoring the turnover in receivables purchased or pledged for credits rose by 15%. The volume of leasing and special financing business grew by 47%. Total assets rose by 30% to Kr. 1 695 million, and outstanding credits by 27% to Kr. 1 360 million.

As in previous years business with small

and medium-sized companies accounted for the greater part of the expansion.

The operating surplus for the year increased by Kr. 11.8 million to Kr. 31.2 million. The year's net profit together with retained earnings amounted to Kr. 23.5 million, of which Kr. 6.5 million was paid in dividends to the shareholders.

During the year Svenska Finans acquired all the shares in Kundkredit AB for Kr. 44 million. This company and its subsidiaries had total assets of Kr. 470 million, and outstanding credits of Kr. 450 million. This acquisition has widened the range of Svenska Finans to include consumer financing.

By year end the total assets of the Svenska Finans Group amounted to Kr. 1 993 million including outstanding credits of Kr. 1 828 million.

The share capital was increased by a bonus issue of Kr. 10 million and by a rights issue of Kr. 22 million. Svenska Handelsbanken and the Oktogonen Foundation took up the new shares in relation to their previous holdings. Svenska Handelsbanken and the Oktogonen Foundation thus continue to hold 80% and 20%, respectively, of the shares in Svenska Finans.

The Tore Browaldh Foundation

The Board of Directors of the Bank has resolved to allocate Kr. 5 million to a foundation for the promotion of university training and research of importance to the activities of the Bank and its subsidiaries. To honour Mr. Tore Browaldh in connection with his 60th birthday and in recognition of his distinguished service to the Bank over the years, the Board has resolved that the foundation shall bear his name.

Board and Auditors

At the 1977 Annual General Meeting, Mr. Tom Hedelius and Mr. Bengt Karlson were appointed deputy members of the Board of Directors. The number of deputies was thereby increased from eight to ten. During the year Mr. Sven Häggqvist resigned his position on the Board due to his taking up residence abroad.

Mrs. Margaretha af Ugglas, M.P., left her assignment as Deputy Auditor in connection with her appointment by the Government as Board Member of the Stockholm City Regional Unit.

Results

Operating surplus

The operating surplus of the Bank rose from Kr. 546 million to Kr. 582 million or by 7%. For the international business and for the finance and investment business, results improved considerably, while the surpluses from other activities fell due to a shrinking interest margin.

Net interest income

The net interest income rose by 7% to Kr. 951 million. The improvement was entirely due to the increase in total assets, which was 10%, calculated on a daily average basis.

The interest margin, which is the difference between the interest rates on total assets and on total liabilities excluding capital and reserves, fell from 2.22% in 1976 to 2.03%.

The interest margin is strongly affected by the height of the general interest level. If the general interest level rises, the interest margin falls. The cause of this is that the interest rates on the Bank's bond portfolio are fixed while the cost of financing rises. In 1977 the general interest level – measured by the official discount rate – was on average 1.7% higher than during the preceding year.

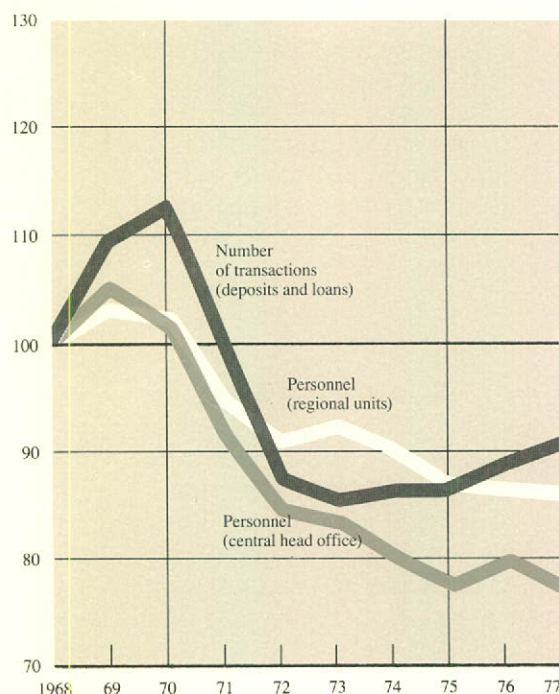
However, the negative effect of the rising interest level is balanced by the higher return earned on capital and reserves when the interest level rises. This is reflected in the investment margin, which is the average yield on total assets less the average cost of total liabilities plus capital and reserves. The investment margin in 1977 was 2.58%, as against 2.64% in the preceding year.

Other income

Commission income rose by Kr. 68 million to Kr. 354 million, or by 24%. Most of the improvement relates to international operations.

The surplus from property administration amounted to Kr. 26 million, an increase of Kr. 11 million. The cost of repairs dropped

Transaction volume and personnel
Index, 1968 = 100



Both the increase in the number of transactions to the end of 1970 and the sharp decrease in 1971-72 are concentrated to cheque accounts. The use of cheques in retail trade was discontinued in 1971-72, which explains the decline.

Interest margins
Per cent



Loan interest rate includes credit charges. Investment margin is the net interest revenues as per cent of all investments. Interest margin is the difference between the average interest rate on all investments, and the average interest rate on deposits and borrowings.

considerably when the Fersen Terrace conversion was completed in 1976. The completion of work on this building also contributed to an increase in rental income from Kr. 32 million to Kr. 40 million.

Dividend income rose from Kr. 18 million to Kr. 22 million, mainly as a result of increased dividend distribution by subsidiaries.

Operating costs

Operating costs rose by Kr. 110 million to Kr. 776 million, or by 17%. Staff costs rose by 15% to Kr. 494 million. Total salaries were 11% higher than in the preceding year, while pension payments and social charges went up by 23%. Other costs rose by 20%.

Extraordinary income

Extraordinary income amounted to Kr. 30 million. Most of this, Kr. 25 million, consisted of transfer from Sigab of profits arising from the winding up of that company's older mortgage business. The remainder consisted of capital gains on properties and shares.

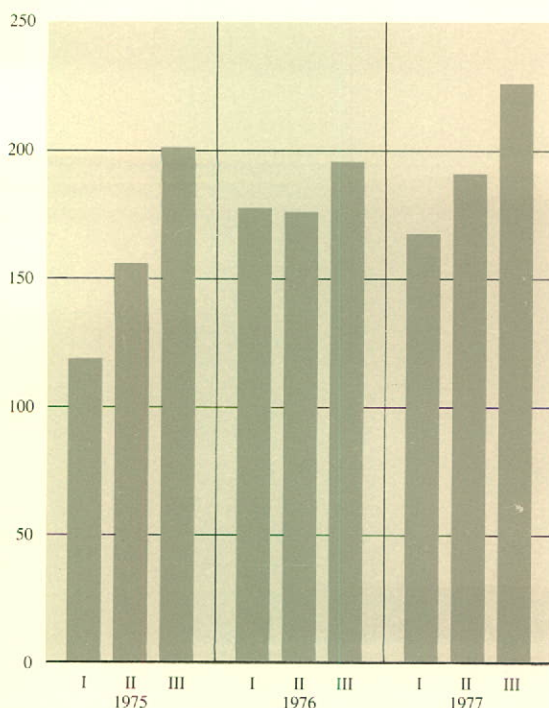
Staff foundation gets Kr. 18.8 million

Of the extraordinary costs totalling Kr. 26.7 million, Kr. 18.8 million relates to the 1977 allocation to the staff foundation called Oktogonen. This allocation was resolved by the Board of Directors in March, when it had been determined that Svenska Handelsbanken in 1976 had a higher return on capital and reserves than the other listed commercial banks as an average. Since 1973 Oktogonen has received Kr. 86.4 million by way of such transfers. At year end the value of the foundation's capital was about Kr. 100 million. Each employee holds a number of shares in this capital, to be disbursed in connection with retirement. All who have been full time employees from 1972 to 1976 now hold shares in the foundation worth some Kr. 21 000.

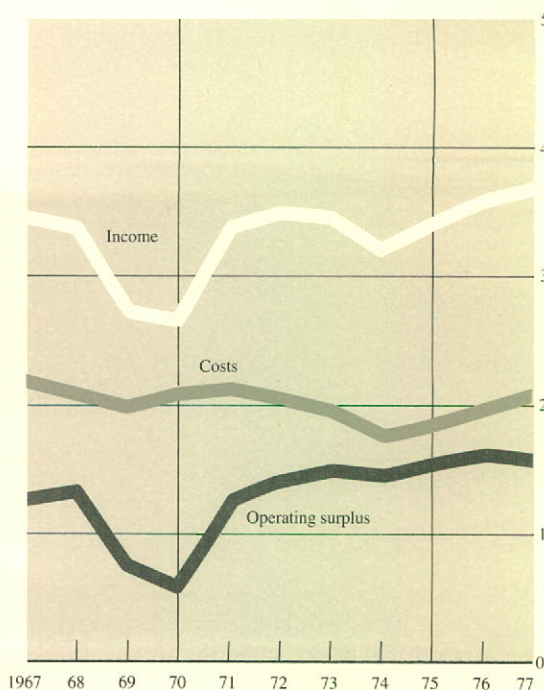
Another extraordinary item was the transfer of Kr. 5 million to the "Tore Browaldh Foundation" resolved by the Board.

Stamp duty and charges on share issues effected during the year amounted to Kr. 2.9 million and have been booked as extraordinary cost.

Operating surplus by 4-month periods
Millions of kronor



Income, costs and operating surplus
as per cent of total assets



Allocations

Profits before allocations and taxes amount to Kr. 585 million (in 1976 Kr. 568 million). Kr. 370 million of this have been allocated to reserves.

Kr. 40 million have been allocated to the bond reserve. After deduction of net realized losses for the year, this reserve amounts to Kr. 609 million.

Taking this allocation into account, the book value of the bond portfolio exceeds its market value by Kr. 63 million, but is Kr. 399 million below the maximum book value allowed under the Banking Act.

Allocation to loan loss reserve amounts to Kr. 330 million. Credit losses totalling Kr. 23.3 million have been charged to this reserve (in 1976 Kr. 16.7 million) which has also been credited with recoveries of Kr. 3.1 million for amounts previously written off (in 1976 Kr. 3.9 million). After these transactions this reserve amounts to Kr. 1 504 million.

The reserve for foreign exchange amounts to Kr. 155 million. In accordance with guidelines given by the Bank Inspection Board, the reserve has been credited with Kr. 13.6 million representing the net of currency gains and losses arising in connection with the 10% devaluation of the Krona at the end of August. In addition, Kr. 2.5 million have been transferred back into this reserve from the funds set aside in 1974 as a special provision to meet the potential loss in connection with the Herstatt engagement. The Bank's final loss in this connection will thus not exceed Kr. 3.8 million.

Net profit and taxes

The net profit for the year is Kr. 125 million, an increase of Kr. 7 million from 1976, after estimated taxes of Kr. 90 million (in 1976 Kr. 90 million).

Group results

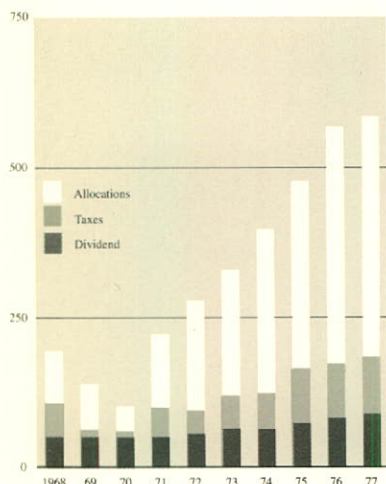
The operating surplus of the Group, as shown by the consolidated statements on pages 31–33, are Kr. 676 million, against Kr. 603 million in 1976, an increase of 12%.

On the basis of the consolidated results, the adjusted earnings per common share have been computed as Kr. 54 as compared to Kr. 50 for 1976. These figures are after adjustment for the bonus issue in 1977 and certain minor changes in the methods of calculation. The Bank's share in the profits of the three affiliated foreign banks have been included. The earnings have been adjusted for extraordinary income and costs and for losses charged and recoveries credited directly to reserves.

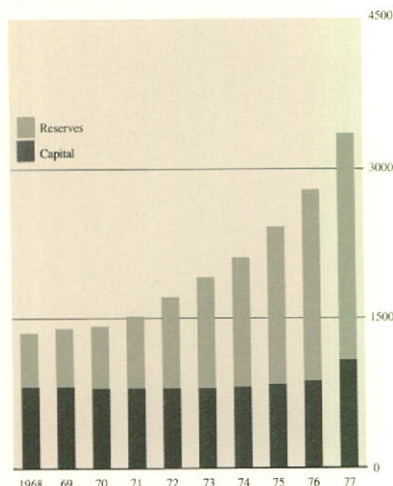
Taxes have been deducted at the standard 56% rate. Finally, the dividends on the preferred and index shares have been deducted.

The increase in the Group's operating surplus, 12%, is larger than the 8% increase in earnings per share. The difference is due to the fact that the extraordinary income, included in the earnings per share figures but not in the operating surplus, was lower than in the preceding year. Besides this, the dividend on the index shares is deducted in computing earnings per share.

Allocations, taxes and dividend
Millions of kronor



Capital and reserves
Millions of kronor



Allocation of Profit proposed by the Board of Directors

At the disposal of the General Meeting according to the balance sheet:

profit brought forward from 1976	Kr. 6 170 954.84
net profit for the year	Kr. 124 774 622.51
	<u>Kr. 130 945 577.35</u>

The Board proposes that these funds be allocated as follows:

for distribution to the shareholders	
on preferred shares Series A Kr. 4.50 per share	Kr. 1 125 000.—
on preferred shares Series B Kr. 6.— per share	Kr. 1 500 000.—
on common shares Kr. 16.— per share	Kr. 82 588 480.—
on index shares Kr. 6.25 per share	Kr. 4 032 625.—
to be carried forward	Kr. 41 699 472.35
	<u>Kr. 130 945 577.35</u>

The common share dividend for the preceding year (Kr. 17.50 per share or a total of Kr. 79 039 800) corresponds to Kr. 15.31 per share after adjustment for the bonus issue. The dividend on the index shares issued du-

ring the year shall, according to the Articles of Association, be Kr. 6.25 per share. The dividends total Kr. 89.2 million (preceding year Kr. 81.7 million).

If this proposal is adopted, the Bank's share capital and reserves will amount to:

share capital	Kr. 630 700 000.—
statutory reserve	Kr. 315 350 000.—
	<u>Kr. 946 050 000.—</u>
profit brought forward	Kr. 41 699 472.35
	<u>Kr. 987 749 472.35</u>

Stockholm, February 7, 1978

TORE BROWALDH

KNUT VON HORN

NILS BERGGREN

GÖSTA ANDERSSON

MATTS CARLGREN

PER EKSTRÖM

ERIK GRAFSTRÖM

GUNNAR HINDEMARK

NILS HOLGERSON

BO AX:SON JOHNSON

PER LINDBERG

INGE NYBERG

GÖRAN PHILIPSON

ULF A STYREN

ULF WIDERSTRÖM

KAJ YTTERSKOG

JAN WALLANDER
President

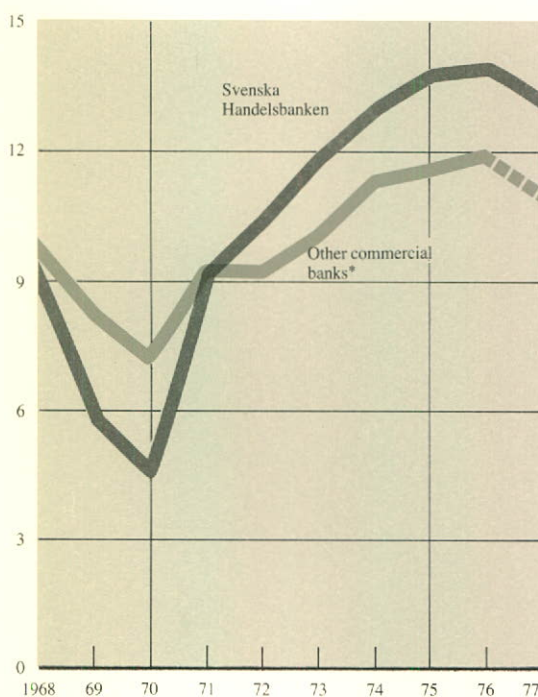
JAN EKMAN
Executive Vice President

Svenska Handelsbanken 1973–1977

Profitability and solvency	1973	1974	1975	1976	1977
Net profit as % of capital and reserves	11.8	13.0	13.8	13.9	13.1
Capital and reserves as % of total assets	5.8	5.2	5.1	5.1	5.3
Operating surplus as % of total assets	1.49	1.46	1.56	1.62	1.57
Net interest income as % of total assets	2.47	2.37	2.45	2.63	2.57
Commissions and other income as % of total assets	0.97	0.83	0.96	0.96	1.10
Operating costs as % of total assets	1.95	1.74	1.86	1.97	2.10
Growth of total assets, %	15.2	21.5	10.2	11.0	9.6
Capital ratio, %	8.5	7.7	8.0	8.3	8.8

By net profit is meant the operating surplus less roughly estimated taxes. By capital and reserves is meant the reported capital (adjusted for the 1977 rights issue) plus one-half of the average reserves for loans, bonds and foreign exchange over the year. By capital ratio is meant the reported capital and reserves incl. untaxed reserves at year end as per cent of total assets as an average over the year.

Net profit as % of capital and reserves



Capital and reserves as % of total assets



*The figure for 1977 is estimated

"Other commercial banks" does not include the government-owned Post- och Kreditbanken nor the central institutions for saving banks and cooperative banks

Per share data, Kr.	1973	1974	1975	1976	1977
Adjusted profit	33	36	45	50	54
Dividend	12.25	12.25	14.00	15.31	16.00
Net asset value on Dec. 31	263	284	318	360	404

For a definition of adjusted profit, see page 16. By net asset value is meant the reported capital and reserves and one-half of the reserves for loans, bonds and foreign exchange for the Group. The number of ordinary shares has been adjusted to take account of the 1977 bonus issue.

Profit & Loss Account

Millions of kronor

Comments on the items marked with * on pages 20–23

	1973	1974	1975	1976	1977
*Operating income					
Net interest income	495.9	582.3	746.0	886.5	951.2
Commissions	250.4	261.7	264.2	286.5	354.1
Net income from real estate	19.4	20.0	9.5	15.7	26.4
Sundry receipts	17.1	18.2	18.9	23.5	26.3
Total operating income	782.8	882.1	1 038.6	1 212.2	1 358.0
*Operating costs					
Personnel costs	290.7	314.8	372.4	430.8	494.3
Other costs excl. depreciation	133.9	141.3	159.3	197.4	238.0
Depreciation on equipment	15.0	19.3	29.6	33.3	38.9
Depreciation on real estate	4.4	3.7	3.5	4.4	4.9
Total operating costs	443.9	479.1	564.8	665.9	776.1
Operating surplus	338.8	403.1	473.8	546.3	581.8
*Extraordinary income	1.1	11.8	20.2	43.8	29.6
*Extraordinary costs	10.0	17.9	17.4	22.3	26.7
Profit before allocations and taxes	329.9	397.0	476.5	567.8	584.8
Writedown of shares and subordinated debentures	—	6.0	4.2	—	—
*Allocation to reserves					
for loans	79.0	90.0	205.0	280.0	330.0
for foreign exchange	60.0	60.0	—	—	—
for bonds	60.0	75.0	75.0	80.0	40.0
Allocation to					
investment reserve	10.0	—	—	—	—
special investment reserve	—	25.0	—	—	—
working environment reserve	—	8.0	—	—	—
*Use of investment and working environment reserves					
Utilized for investment	—	7.5	11.9	10.8	12.3
Corresponding writeoffs	—	7.5	11.9	10.8	12.3
Taxes	55.0	58.0	92.0	90.0	90.0
Net profit	65.9	75.0	100.4	117.8	124.8
At the disposal of the General Meeting, incl. contingency reserve	114.2	123.3	157.9	200.7	130.9
Dividends for the year	65.9	65.9	74.9	81.7	89.2
Allocation to share capital	—	—	—	64.5	—
Allocation to statutory reserve	—	—	—	48.4	—
Balance	48.4	57.5	83.0	6.2	41.7
of which: Contingency reserve	47.5	47.5	47.5	—	—
Profit carried forward	0.9	10.0	35.5	6.2	41.7

Comments on the Profit & Loss Account

Operating income

	Average balance	Changes from 1976				
		Interest		Average balance	Interest	
	Mill.kr.	Mill.kr.	%	Mill.kr.	Mill.kr.	%
<i>Interests</i>						
<i>Investments</i>						
Cash	577	17.0	2.95	+ 128	+ 8.9	+1.14
Due from domestic financial institutions	1 281	60.2	4.70	+ 162	+ 16.0	+0.75
Due from foreign banks	5 020	305.2	6.08	- 153	+ 14.8	+0.47
Treasury bills and bonds	7 541	574.0	7.61	- 189	+ 15.3	+0.38
Loans	21 788	2 460.5	11.29	+ 3 204	+ 637.9	+1.48
of which in Swedish Kronor	19 012	2 254.1	11.86	+ 1 831	+ 546.4	+1.92
in foreign currencies	2 776	206.4	7.43	+ 1 373	+ 91.5	-0.76
Other assets	600	2.4	-	+ 71	+ 0.3	-
A. Total investments	36 807	3 419.3	9.29	+ 3 223	+ 693.2	+1.17
<i>Sources of finance</i>						
Deposits	21 523	1 677.5	7.79	+ 644	+ 402.8	+1.68
of which in Swedish Kronor	20 961	1 651.1	7.88	+ 644	+ 405.9	+1.75
in foreign currencies	562	26.4	4.70	-	- 3.1	-0.55
Due to domestic financial institutions	3 023	223.3	7.39	+ 962	+ 91.7	+1.00
Due to foreign banks	6 088	309.2	5.08	+ 1 177	+ 69.7	+0.20
Refinancing loans from National Pension Fund	2 145	189.0	8.81	+ 233	+ 46.0	+1.33
Debenture loans	504	52.2	10.36	+ 19	+ 11.2	+1.92
Other liabilities	724	16.9	-	- 193	+ 7.0	-
B. Total liabilities	34 007	2 468.1	7.26	+ 2 842	+ 628.4	+1.36
Capital and reserves	2 800			+ 381		
C. Total liabilities and capital	36 807	2 468.1	6.71	+ 3 223	+ 628.4	+1.23
Net interest income		951.2			+ 64.8	
Interest margin (A ÷ B)			2.03			-0.19
Investment margin (A ÷ C)			2.58			-0.06
Average official discount rate			8.00			+1.69

The official discount rate was 8% throughout 1977, on average 1.69% higher than in 1976.

Normally, the interest rates on assets and liabilities in Swedish Kronor change in step with the Central Bank rate. The major exception is the bond portfolio. As the yield on bonds already in the portfolio is not affected by changes in the interest level, the yield on the bond portfolio adapts to any new interest level only with a considerable time-lag. The rise in 1977 was a mere 0.38%. The interest rate on credits in Swedish Kronor, which include commitment fees on contractual credits, rose 0.23 percentage points more than the official discount rate. The Bank held its lending rates within the maximum limits set by the Central Bank for the period from September 1976 to September 1977.

The interest rates on deposits in Swedish Kronor rose 0.06 percentage points more than the official discount rate. The interest rates on large-scale deposits were high throughout 1977 due to difficulties for the banks to meet the Central Bank liquidity requirements. On average, the cost of these deposits was 2.64% higher than in 1976. The fact that the average interest rate on deposits did not rise even more was due to some checking account deposits not receiving any interest and consequently not being affected by higher interest rates.

Interest rates on investments and liabilities in foreign currencies depend on the international interest level, which was lower than in Sweden throughout the year.

Domestic refinancing loans are credits refinanced with the National Pension Fund and export credits refinanced with the National Pension Fund and Svensk Exportkredit.

The cost of subordinated debt rose markedly due to currency losses on foreign currency debt. The currency losses in connection with the devaluation at the end of August, however, were charged to the foreign currency loss reserve in accordance with the guidelines given by the Bank Inspection Board. The Kr. 100 million debenture loan issued during the year carries higher interest than older issues.

The interest margin, i.e. the difference between the average interest rates on total assets and on total liabilities excluding capital and reserves, dropped as is normal when the interest level is rising. The reason for this is mainly that the yield on the bond portfolio rises much more slowly than the interest on deposits.

The deterioration in the interest margin was balanced by the improved yield on capital and reserves at the higher interest level. The investment margin, i.e. the difference between the average yield on all investments and the average cost of financing therefore fell considerably less.

	1977 Mill.kr.	Change from 1976 Mill.kr.
Commissions		
Domestic lending	56.4	+ 3.9
Securities business	52.4	+ 5.0
Trust business	33.4	+ 1.7
Other domestic operations	31.7	+ 5.5
International operations	180.3	+ 51.5
Total commissions	354.1	+ 67.6
Net income from real estate		
Rents etc.	40.5	+ 8.3
Deductions:		
repairs	7.4	- 3.2
other operating costs	6.7	+ 0.8
Income before depreciation	26.4	+ 10.7
Depreciation	4.9	+ 0.5
Net income	21.5	+ 10.3
Sundry receipts		
Dividends:		
Sigab	11.2	+ 1.0
Svenska Finans AB	5.2	+ 1.9
other	5.3	+ 0.7
Total dividends	21.7	+ 3.6
Other receipts	4.6	- 0.8
Total sundry receipts	26.3	+ 2.8
Operating costs		
Personnel costs		
Salaries	339.2	+ 33.6
Pensions disbursed and charges paid to the Bank's pension fund ...	29.5	+ 3.6
Social charges	107.5	+ 22.5
Other personnel costs	18.2	+ 3.8
Total personnel costs	494.3	+ 63.5

Commitment fees on contractual credits are reported as interest and are thus not included in credit commissions.

Securities commissions rose primarily as a result of expanding bond business. Commissions on share issues and share brokerage commissions fell.

International business income rose due to the sharp increase in international borrowings by Swedish companies and brisk trading in currencies.

The yield on the Bank's own properties rose from 5.4% of the book value in 1976 to 9.6%. Kr. 2 million of the repair costs relates to renovation work on the Head Office buildings.

The dividends from Sigab, Svenska Finans AB and the wholly-owned property companies relate to operations in 1977. For a specification of the dividends, see page 30.

The average number of employees was 4703, against 4733 in the preceding year (calculated as total number of hours worked divided by 1684). Over the year, salary payments rose by an average of 13.5%. As some of the general salary increases were payable only as from April 1 or September 1, the average cost increase was approximately 11%.

To Boards of Directors and executives throughout the Bank, salaries and fees totalling Kr. 6.4 million were paid in 1977 (1976 Kr. 5.4 million) and to other employees Kr. 325.2 million (1976 Kr. 292.7 million).

Other salary costs – fees to branch office boards, annual holidays earned but not used, wages to canteen and cleaning staff employed by the Bank – amounted to Kr. 7.6 million (1976 Kr. 7.5 million).

Pension costs rose because of new contractual charges for the value guarantee and the complementary pension. On the other hand, the Bank's pension fund during 1977 has assumed some of the supplement disbursements to the Bank's pensioners.

The social charges, by which are meant all the statutory employers' contributions: National Supplementary Pension, health insurance, National Basic Pension, general payroll tax, etc., rose by 26.5%, mainly because of higher pension contributions.

	1977 Mill.kr.	Change from 1976 Mill.kr.
<i>Other costs excl. depreciation</i>		
Rents and other premises costs . . .	96.2	+ 23.2
Telephone, cables, postage, transport	30.6	+ 1.1
Equipment rental, leased computer services, maintenance	29.1	+ 5.1
Purchased services	22.9	+ 1.0
Office supplies	16.3	+ 0.9
Other costs	43.0	+ 9.3
Total other costs	238.0	+ 40.7
 <i>Depreciation on equipment</i>	38.9	+ 5.6
<i>Depreciation on real estate</i>	4.9	+ 0.5
 Extraordinary income		
Transfer from Sigab	25.0	+ 5.0
Compensation from pension founda- tion	—	— 18.8
Capital gains:		
real estate	0.3	— 0.6
shares	4.3	+ 1.5
Other	—	— 1.3
Total extraordinary income	29.6	— 14.2
 Extraordinary costs		
Transfer to the staff-owned Okto- gonen Foundation	18.8	— 3.5
Allocation to the Tore Browaldh Foundation	5.0	+ 5.0
Issue costs	2.9	+ 2.9
Total extraordinary costs	26.7	+ 4.4
 Reserves		
<i>A. For loans</i>		
Balance at beginning of year	1 194.2	+265.9
Recoveries on claims previously charged off	3.1	— 0.8
Charge-offs	23.3	+ 6.6
Writedown of loans with fixed interest rates	—	— 1.3
Allocation in the 1977 profit and loss account	330.0	+ 50.0
Balance at end of year	1 503.9	+309.8

Maintenance costs account for half the increase in rents and other premises costs. The rents in properties owned by the Bank rose sharply due to the move to the Fersen Terrace at the end of 1976.

Most of the cost increase for equipment rental etc., was in costs for service and maintenance of computers and terminals.

Purchased services are consultation fees and services used jointly by all commercial banks, such as services from the Bank Giro Centre, the Cash Dispenser Centre, the Credit Information Centre and the Bankers' Association.

Among "Other costs", the costs of marketing, travelling expenses, and for security guards rose sharply.

See page 27.

See page 28.

Transfer of profits from Sigab in connection with the gradual winding up of Sigab's stock of older outstanding credits.

Capital gains on the sales of shares in The National Investment Bank for Industrial Development, Kr. 2.8 million, and Kommunlæneinstituttet AB, Kr. 1.2 million.

	1977 Mill. kr.	Change from 1976 Mill. kr.
<i>B. For foreign exchange</i>		
Balance at beginning of year	139.2	+ 1.5
Recovery in the profit and loss account	2.5	+ 1.0
Devaluation profit in 1977	13.6	+ 13.6
Balance at end of year	155.3	+ 16.1
<i>C. For bonds</i>		
Balance at beginning of year	587.9	+ 66.0
Realized losses	19.1	+ 5.1
Allocated in profit and loss account	40.0	- 40.0
Balance at end of year	608.8	+ 20.9
Required to cover the difference between acquisition value and mar- ket value	671.7	- 157.1
Market value falls below book value by	62.9	- 178.0
The highest value permitted under the Banking Companies Act exceeds the book value by	399.0	- 42.0
Investment and working environment reserves		
<i>Withdrawn:</i>		
Special investment reserve	10.0	+ 5.0
Working environment reserve	2.3	- 3.5
Total withdrawn	12.3	+ 1.5
<i>Utilized:</i>		
Special investment reserve Writedown of properties	10.0	+ 5.0
Working environment reserve Writedown of equipment	0.3	-
Operating costs	2.0	- 3.5
Total working environment reserve	2.3	- 3.5
Total utilized	12.3	+ 1.5

The amount recovered relates to the Herstatt-Bank. Of the original provision, Kr. 18 million, a total of Kr. 14.2 million has been recovered. The final loss on the Herstatt affair will thus not exceed Kr. 3.8 million.

The devaluation profit is the difference between currency profits and losses in connection with the devaluation in August 1977 in respect of claims on and liabilities to foreign banks, foreign bonds, foreign banknotes and the Bank's foreign subordinated debt.

In the balance sheet the reserve for losses on bonds has been deducted from the acquisition cost of the bonds. The acquisition cost, book value and market value of the bond portfolio are shown on pages 26-27.

Balance Sheet, December 31

Millions of kronor

Comments on the items marked with * on pages 26–29.

Assets	1973	1974	1975	1976	1977
Cash					
Domestic and foreign notes and coin	108	131	139	198	264
Domestic checks and money orders	264	330	580	619	547
Total cash	372	461	720	817	810
*Due from domestic financial institutions					
Central Bank	189	960	336	352	325
National Debt Office	0	0	0	0	1
Commercial banks	242	1046	289	497	640
Savings banks	4	9	54	98	54
Others	244	283	316	333	388
Total due from domestic financial institutions ...	679	2298	995	1281	1407
Due from foreign banks	3062	4087	4510	4625	5391
*Treasury bills and bonds	5662	5905	7010	6749	7365
Debentures	16	16	21	21	21
*Loans	13593	15148	17602	19806	23878
*Sundry accounts	970	1321	1319	1166	1056
*Shares					
in wholly-owned real estate companies	17	30	19	17	18
in other companies	171	179	195	228	258
Total shares	188	209	214	245	277
*Equipment	31	53	84	87	88
Real estate					
* used by the Bank	205	191	192	208	225
other	1	0	0	0	0
Total real estate	206	191	192	208	225
Total assets	24779	29689	32668	35003	40518
*Collaterals pledged	1586	3496	3043	3596	4924
Loans, amount granted	16372	18199	21527	23730	27731

Liabilities	1973	1974	1975	1976	1977
Bank money orders	108	161	189	195	194
*Deposits	18 217	19 750	20 718	21 388	23 659
*Due to domestic financial institutions					
Central Bank	—	872	21	1 416	1 233
National Debt Office	49	61	93	88	123
Commercial banks	506	1 202	1 015	711	414
Savings banks	44	59	87	49	25
Others	555	532	484	326	803
Total due to domestic financial institutions	1 154	2 726	1 700	2 589	2 598
Due to foreign banks	2 005	2 854	4 252	4 822	6 849
Acceptances	15	27	35	39	32
Foreign bills rediscounted	16	4	29	31	74
Long-term borrowing					
Debenture loans	177	239	386	494	605
* Domestic refinancing loans	1 082	1 578	1 850	2 081	2 489
Mortgages on the Bank's own properties	61	89	80	77	126
Total long-term borrowing	1 320	1 906	2 316	2 653	3 221
*Sundry accounts	338	489	1 429	986	1 152
*Reserves for loans and foreign exchange	729	860	1 066	1 333	1 659
Investment reserves	10	28	18	13	3
Working environment reserve	—	8	6	2	0
Capital and reserves					
Common shares	452	452	452	452	516
Index shares	—	—	—	—	65
Preferred shares	50	50	50	50	50
Statutory reserve	251	251	251	251	315
Contingency reserve	47	47	47	47	—
Balance brought forward from last year	1	1	10	35	6
Net profit for the year	66	75	100	118	125
Total capital and reserves	867	876	910	953	1 077
Total liabilities	24 779	29 689	32 668	35 003	40 518
Documentary credits granted but not utilized	385	514	601	484	896
Liabilities for outstanding guarantees	1 820	2 736	3 456	4 125	3 832
Liabilities for guarantee fund commitments	13	23	33	49	59
*Commitment to foreign central banks	—	—	—	—	—
*Capital value of pension liabilities (covered by assets in the Bank's pension funds)	354	372	400	440	486

Comments on the Balance Sheet

Principles of valuation for assets and liabilities in foreign currencies

Foreign banknotes	Buying rates for banknotes at year end
Foreign banks and bankers (claims and liabilities)	Spot rates (average of buy and sell rates according to the official fixing at year end)
Foreign currency credits	Spot rates
Shares and debentures	Lower of cost or market
Foreign currency deposits	Spot rates
Subordinated debt	Higher of cost or market

Assets

	1977 Mill.kr.	Change from 1976 Mill.kr.
<i>Due from domestic financial institutions</i>		
Central Bank		
Mandatory cash reserves	279	- 58
Blocked account for investment funds	1	- 7
Other	44	+ 37
Total Central Bank	325	- 28
National Debt Office	1	+ 0
Banks	640	+ 142
Savings banks and cooperative banks	54	- 44
Others	388	+ 55
Total domestic financial institutions	1 407	+ 126
<i>Government securities and bonds</i>		
A. Acquisition value		
Issued by:		
The Government	2 695	+ 45
Mortgage companies	4 904	+ 518
Local authorities and institutions financing local authorities	24	+ 2
Business and institutions financing business	312	+ 75
Total domestic	7 935	+ 640
Foreign	39	- 3
Total acquisition value	7 974	+ 637
less reserve for bonds	609	+ 21
Total book value	7 365	+ 616

The cash ratio requirement was 2% at the end of both 1976 and 1977. The fall in the balance according to the cash ratio requirement is due to a larger balance of cash in hand, which under present rules may be included in the cash ratio.

"Others" include Post Office Giro balances at year end.

The portfolio of housing mortgage bonds has been increased under the agreement with the Housing Finance Delegation. The share of housing mortgage bonds in the bond portfolio has thus risen to 61.5%, compared with 59.8% at the end of 1976.

	1977 Mill. Kr.	Change from 1976 Mill. Kr.
B. Market value		
Issued by:		
The Government	2592	+ 78
Mortgage companies	4358	+ 638
Local authorities and institu- tions financing local authorities	21	+ 1
Business and institutions financing business	293	+ 77
Total domestic	7264	+ 794
Foreign	38	—
Total market value	7302	+ 794
 <i>Loans</i>		
Domestic bills	427	+ 99
Foreign bills	346	+ 4
Loans	14660	+2976
Overdraft credits:		
checking accounts	3624	+ 455
building credits	4183	+ 470
other	538	+ 32
Documentary credits	2	— 2
Other credits	97	+ 39
Total loans	23878	+4072
 <i>Sundry accounts</i>		
Interest and commissions receivable	700	+ 124
Temporary clearing accounts	356	— 234
Total sundry accounts	1056	— 109
 <i>Shares</i>		
Wholly-owned real estate companies	18.1	+ 1.0
Sigab	65.0	—
Svenska Finans AB	52.9	+ 17.6
Other domestic credit companies ..	50.0	+ 13.0
Associated and other foreign banking institutions	88.7	—
Other shares	1.7	— 0.0
Total shares	276.5	+ 31.6
 <i>Equipment</i>		
Book value at beginning of year ..	86.6	+ 2.3
Acquisitions	40.5	+ 3.0
Sales	—	— 1.9
Depreciation	38.9	+ 5.6
Book value at year end	88.2	+ 1.6

The preferential credits for residential construction together with bridging credits, i.e. temporary loans while awaiting arrangement of mortgage bank credit, amounted to Kr. 3278 million, an increase compared with 1976 of Kr. 277 million or 9%.

Credits refinanced abroad rose by Kr. 2031 million or 117% to Kr. 3765 million. For credits in Swedish Kronor the increase was considerably slower, Kr. 1765 million or 12% to Kr. 16836 million.

Subscription of new shares in AB Giro, Kr. 1.1 million.

Subscription of new shares in Svenska Finans AB.

Subscription of new shares in Bofab, Kr. 1.6 million, in Svensk Exportkredit, Kr. 10.0 million, and in Kommunlånainstitutet, Kr. 2.3 million.

Depreciation on equipment according to plan is at the rate of 20%.

	1977 Mill.kr.	Change from 1976 Mill.kr.
<i>Bank premises</i>		
Book value at beginning of year . . .	207.5	+ 15.3
New construction, additions and conversions increasing the value . .	32.5	+ 7.2
Properties sold	0.1	- 0.5
Depreciation	14.9	+ 5.5
of which against special investment reserve	10.0	+ 5.0
Book value at year end	225.0	+ 17.5
Assessed value at year end	213.1	+ 16.9
<i>Collaterals pledged</i>	4924	+1328

Liabilities

Deposits

Checking accounts	1854	- 33
Accounts for payment of salaries and wages	813	+ 104
Giro deposit accounts	48	+ 9
Deposits subject to certain fees on withdrawal	906	+ 4
Savings accounts	2425	+ 119
Six month deposit accounts	4661	+ 199
Twelve month deposit accounts . . .	6582	+ 224
Other time deposit accounts	207	+ 17
Foreign currency accounts	812	+ 100
Other deposits	5350	+1527
Total deposits	23659	+2270

Due to domestic financial institutions

Central Bank	1233	- 183
National Debt Office	123	+ 35
Commercial banks	414	- 297
Savings banks and cooperative banks	25	- 24
Others	803	+ 478
Total domestic financial institutions	2598	+ 9

The acquisition cost of the properties is Kr. 251 million and accumulated depreciation is Kr. 26 million.

Investments adding to property values during the year included Kr. 9.4 million for new construction and conversions in the Fersen Terrace block and Kr. 20.6 million for new construction in the Frimuraren block in Göteborg. On the latter property, Kr. 10.0 million has been written off against the special investment reserve.

Of the collaterals pledged, Kr. 4793 million refers to bonds deposited with the Central Bank as collateral for temporary borrowings, which at the end of 1977 amounted to Kr. 1144 million.

Deposits rose from year end to year end by 10.6%. The trend in deposits was weak until the end of August and the entire increase came during the last four months. As an average for the year, deposits were only 2% higher than in 1976. A very large part of the increase was in special accounts for large-scale deposits which rose by 40% during the year.

Other financial institutions are mostly insurance companies.

	1977 Mill.kr.	Change from 1976 Mill.kr.
<i>Domestic refinancing loans</i>		
Refinancing from the National Pension Fund		
Balance, Jan. 1	1 618	+ 210
New loans	680	+ 195
Repayments	314	+ 39
Balance, Dec. 31	1 984	+ 366
Refinancing of export credits with the National Pension Fund and Svensk Exportkredit	505	+ 42
Total domestic refinancing loans	2 489	+ 408
<i>Sundry accounts</i>		
Tax debt	21	— 33
Interest and commissions receivable	303	+ 40
Bank Giro	349	— 1
Temporary clearing accounts	479	+ 160
Total sundry accounts	1 152	+ 166
<i>Reserves for loans and foreign exchange</i>	1 659	+ 326
<i>Working environment reserve</i>		
Balance brought forward	1.7	— 4.4
Transferred from the subsidiary company Sigab	1.0	— 0.4
Utilized in 1977	2.3	— 3.5
Balance carried forward	0.4	— 1.3
<i>Commitment to foreign central banks</i>	—	—
<i>Pension liabilities and reserves</i>		
Capital value of pension liabilities	486	+ 46
Allocated reserves (book value)	456	+ 23

Refinancing at the National Pension Fund equals the Bank's credits to customers under the arrangement for reborrowing of pension fund contributions. Such credits are generally repaid over 10 years.

Other refinanced credits are long-term export credits in Swedish Kronor with maturities varying from 5 to 10 years.

See pages 22–23.

Svenska Handelsbanken, Den norske Creditbank, Kansallis-Osake-Pankki and Copenhagen Handelsbank have on behalf of the Nordic Bank Limited branch office in Singapore undertaken towards the Monetary Authority of Singapore to supply the office with currencies in its Asian Currency Unit when required. On December 31, 1977, the branch office reported borrowings equivalent to Kr. 206 million and outstanding credits equivalent to Kr. 204 million.

The current value of the funds reserved exceeds the book value and fully covers the capital value of the pension commitments.

Share Holdings, December 31, 1977

	Nominal value* 000's	Book value 000's	Dividend 000's	Voting power, %
Subsidiaries (domestic)				
Svenska Finans AB (financing company)	57 600	52 905	5 200	80
Sigab (mortgage company)	51 000	65 000	11 220	100
AB Oktogonen (bank property company, formerly AB Blasieholmen)	10 500	10 444	100	100
Fastighets AB Filia (real estate company)	4 500	4 810	900	100
Handelsbankens Fondförvaltning AB (mutual fund manage- ment)	500	601	—	100
	124 100	133 760	17 420	
Housing cooperatives shares	1 804	1 804	—	
Swedish credit institutions				
AB Svensk Exportkredit	30 000	30 000	1 020	10.0
Svensk Bostadsfinansiering AB BOFAB	8 157	9 462	—	16.3
AB Industrikredit	3 460	3 613	182	10.8
Kommunlåneinstitutet AB	2 900	2 958	96	14.5
Företagskapital AB	2 299	2 699	—	11.5
AB Företagskredit	1 299	1 299	75	10.8
	48 115	50 032	1 373	
Foreign banking and financing institutions				
Nordic American Banking Corporation (NABC)	27 990	43 590	—	100.0
Nordfinanz-Bank Zürich	27 990	16 411	1 768	17.1
Nordic Bank Limited	20 784	22 214	—	25.0
Manufacturers Hanover Banque Nordique	6 471	6 094	369	10.0
Adela Investment Co SA	2 449	0	—	0.9
Banco Urquijo	1 730	0	253	0.4
Finska Industrialiseringsfonden	367	432	27	0.8
Development Bank of Singapore	239	0	12	0.1
National Investment Bank for Industrial Development (NIBID) ¹	—	—	61	—
	88 020	88 741	2 490	
Other companies				
AB Giro (attached to the Bank Giro Centre)	1 090	1 090	—	21.8
Värdepapperscentralen VPC AB	450	540	180	15.0
Upplysningscentralen UC AB	221	265	181	22.1
Euroclear Clearance System Ltd	146	148	7	1.3
Society for World Interbank Financial Telecommunication (SWIFT)	50	38	—	0.4
Miscellaneous	3 572	116	13	
	5 529	2 198	381	
Shares, total	267 568	276 534	21 664	

* The nominal value of shares in foreign companies have been converted into Swedish Kronor at rates representing the average of the buying and selling rates of the currency concerned at year end.

¹ Sold before year end

Consolidated Accounts

In addition to the accounts of Svenska Handelsbanken the consolidated accounts include the accounts of Sigab with its subsidiary company Förvaltnings AB Storstaden, Svenska Finans AB, Nordic American Banking Corporation (NABC), Handelsbankens Fondförvaltning AB and the Bank's property companies.

Through 1972 Sigab granted long-term credits secured by first mortgages on new residential and commercial properties. As this activity has now been taken over by Svensk Bostadsfinansiering AB BOFAB, jointly owned by the State and the commercial banks, Sigab no longer grants any new such credits. The outstanding credits of this kind are gradually transferred to BOFAB. Sigab now grants mortgage credits in connection with modernizations or purchases of older single family houses.

Svenska Finans AB is the largest factoring and leasing company in Sweden. At the end of 1977, Svenska Finans acquired all the shares in Kundkredit AB, thereby extending its business to include consumer financing and collection business. Kundkredit is included in the consolidated balance sheet at December 31, 1977, but not in the consolidated profit and loss account, as the acquisition took place at the end of the year.

80% of Svenska Finans is owned by the Bank and 20% by the staff foundation of the Bank, Oktogonen. The consolidated accounts show the 20% interest of the Oktogonen Foundation as a minority interest in the Group profits and capital.

Nordic American Banking Corporation (NABC) carries on traditional commercial banking business in New York City except

that the bank cannot accept deposits from private individuals. NABC concentrates mainly on clients in North and South America that have some connection with the Nordic market.

Handelsbankens Fondförvaltning AB manages the mutual funds sponsored by the Bank, Handelsbankens Aktiefond, Hög-Koncentra and Koncentra Reinvest.

The consolidated balance sheet has been prepared in accordance with the acquisition method. This means that the consolidated equity consists of the parent company's equity plus that portion of the subsidiaries' equity which has accrued in these companies after the dates of acquisition.

When converting NABC's accounts, monetary assets and liabilities have been valued at the US dollar buying rate at the end of the year, Kr. 4.6625. Equipment and capital have been booked at the buying rate at the time of investment. The profit and loss account has been converted at the average buying rate for the year, except in respect of depreciation on equipment, for which the rate at the time of investment has been used.

In the conversion from local currencies to Swedish Kronor, a difference arises between assets and liabilities, as different exchange rates have been used for different types of assets, liabilities and capital. In the 1977 accounts, a positive difference arises representing an unrealized currency gain, which is not added to the results for the year but is carried forward as a special Group reserve.

The operating surplus of the Group rose by 12% to Kr. 676.1 million. The results of the different Group members were as follows:

	1976 Mill.kr.	1977 Mill.kr.	Change in mill.kr.
Svenska Handelsbanken	531.8	564.4	+32.6
Svenska Finans AB	19.4	31.2	+11.8
Sigab	48.9	72.9	+24.0
NABC	0.6	5.0	+ 4.4
Others	2.6	2.6	+ 0.0
	603.3	676.1	+72.8

The funds available to the Group amount to Kr. 152 million before allocations to statutory reserves and bonus issues of subsidiaries.

The average number of Group employees was 5001, against 5006 in the preceding year.

Consolidated Profit & Loss Account

Millions of kronor

Items marked with * see below.

	1976	1977	Change from 1976
Operating income			
*Net interest income	1015.5	1127.1	+111.6
Commissions	309.7	383.6	+ 73.9
Sundry receipts	23.2	26.6	+ 3.4
Total operating income	1348.4	1537.3	+188.9
Operating costs			
Personnel costs	454.3	524.9	+ 70.6
Other costs excl. depreciation	206.1	236.7	+ 30.6
*Depreciation	84.7	99.6	+ 14.9
Total operating costs	745.1	861.2	+116.1
Operating surplus	603.3	676.1	+ 72.8
Extraordinary income	23.8	4.6	- 19.2
Extraordinary costs	22.4	26.7	+ 4.4
Allocation to reserves	365.9	395.7	+ 29.8
Reversals from reserves	—	4.3	+ 4.3
Utilized investment and working environment reserves	10.8	12.3	+ 1.5
Corresponding writeoffs	10.8	12.3	+ 1.5
Taxes	110.8	117.2	+ 6.4
Minority interest in profit	2.6	4.7	+ 2.1
Net profit	125.3	140.7	+ 15.4

	1977 Mill.kr.	Change from 1976 Mill.kr.		1977 Mill.kr.	Change from 1976 Mill.kr.
Net interest income			Depreciation		
Svenska Handelsbanken	953.6	+ 65.7	Leasing objects	53.9	+ 8.6
Sigab	74.2	+ 23.8	Equipment	40.0	+ 5.9
Svenska Finans	91.4	+ 18.1 ¹	Real estate	5.7	+ 0.4
Others	7.8	+ 4.0			
Total net interest income	1127.1	+111.6	Total depreciation	99.6	+14.9

¹Net interest income includes leasing charges.

Note. The principles on which the consolidated accounts are based have been changed, and as a result several items do not agree with the figures in previous Annual Reports. The comparative figures for 1976 in the tables above have been adjusted in accordance with the new accounting principles.

Consolidated Balance Sheet

December 31, millions of kronor

Items marked with * see below.

	1976	1977	Change from 1976
Assets			
Cash	817	810	- 7
Bonds	6025	6704	+ 679
Due from banks and other financial institutions	6104	6947	+ 843
*Loans	26776	31766	+4990
*Leasing objects	284	390	+ 106
Shares	87	100	+ 13
Equipment	92	95	+ 3
*Real estate	256	272	+ 16
*Sundry assets	1398	1283	- 115
Total assets	41839	48367	+6528
Liabilities			
Bank money orders	195	194	- 1
Due to banks and other financial institutions	7855	10102	+2247
Deposits and short-term borrowing	22021	24560	+2539
*Long-term borrowing	8087	9014	+ 928
Sundry liabilities	1244	1573	+ 329
*Reserves for loans and foreign exchange	1436	1781	+ 345
Investment and working environment reserves	17	5	- 12
Group reserve	-	3	+ 3
Minority shareholding	12	21	+ 9
Share capital	502	631	+ 129
Statutory reserve	255	331	+ 76
Contingency reserve	90	11	- 79
Net profit for the year	125	141	+ 16
Total liabilities	41839	48367	+6528

	1977 Mill.kr.	Change from 1976 Mill.kr.		1977 Mill.kr.	Change from 1976 Mill.kr.
Loans and leasing objects			Long-term borrowing		
Svenska Handelsbanken	23824	+4067	Svenska Handelsbanken	3221	+ 568
Sigab	6022	+ 78	Sigab	5169	+ 104
Svenska Finans	1828	+ 771	Svenska Finans	603	+ 249
Others	482	+ 180	Others	22	+ 7
Total loans and leasing objects	32156	+5096	Total long-term borrowing	9014	+ 928

	Purchase value 1977 Mill.kr.	Book value 1977 Mill.kr.	Assessed value 1977 Mill.kr.	Reserves for loans, foreign exchange and leasing objects		
Real estate				Reserves at beginning of year	1436	+ 271
Svenska Handelsbanken	251	225	213	Recoveries	10	+ 6
Svenska Finans	15	10	10	Established losses	26	+ 8
Property companies ...	37	37	43	Devaluation profit	13	+ 13
Total real estate	303	272	266	Writedown on fixed-interest claims	-	- 1
				Allocation in profit and loss account	356	+ 70
				Reserves at end of year	1781	+ 345

Sundry assets

The 1977 figure includes Kr. 20.8 million representing goodwill on the shares in Kundkredit AB acquired by Svenska Finans AB.

Svenska Handelsbanken

Auditors' Report for 1977

In our capacity as Auditors of Svenska Handelsbanken, we present the following Report for 1977.

We have examined the Annual Report of the Board of Directors, studied accounts, minutes, instructions of the Board concerning the Bank's lending policy and other documents of importance for judging the financial position and the conducting of the business of the Bank. We have also scrutinized major credits and other dispositions of the assets of the Bank. All regional units have been visited. We have also taken such other steps as we have deemed necessary for carrying out the audit.

The internal audit department of the Bank has examined the internal controls and accounts. In connection with this the department has carried out inventories and other audit measures in accordance with the instructions in force. We have reviewed the reports of these examinations.

The audit has given no reason for comments as regards documents submitted to us, the book-keeping of the Bank, inventories of its assets, internal control, administration costs, or the conducting of the business of the Bank.

We recommend the Annual General Meeting of Shareholders

that they adopt the Balance Sheet presented by the Board of Directors and countersigned by us as per December 31, 1977,

that they grant the Directors a discharge from liability for their administration during 1977 and

that they allocate the profit at their disposal, which amounts to Kr. 130 945 577.35, in accordance with the recommendation of the Board of Directors.

Stockholm, February 24, 1978

KJELL EDSTRÖM

STEN KÄLLENIUS

Chairman

TORE HENCKEL

Authorized Public Accountant

SVEN-ERIK JOHANSSON

SVEN TRUED

ÅKE FLINK

Authorized Public Accountant
Appointed by
the Bank Inspection Board

MALTE OREDSSON

Appointed by the
Bank Inspection Board

PETER WESTERLIND

Appointed by
the Bank Inspection Board

Svenska Handelsbanken –Central Head Office and Regional Units

- Main office of regional units
- Other branch offices

Central Head Office

Presidents and Chief Executive Officers

Jan Ekman

Tom Hedelius

Executive Vice Presidents

Finance: Bo Damberg

Administration: Morgan Abrahamsson

Controller: Lennart Johansson

Kungsträdgårdsgatan 2, Stockholm

Tel. 08-229220

Southern Norrland

Manager: Jan Åsman,
Executive Vice President
Main office: Nygatan 20, Gävle
Tel. 026-129370

Northern Norrland

Manager: Einar Mogård,
Executive Vice President
Main office: Storgatan 48, Umeå
Tel. 090-118640

Central Sweden

Manager: Olof Hyltén-Cavallius,
Executive Vice President
Main office: Drottninggatan 3, Örebro
Tel. 019-124690

Greater Stockholm

Manager: Holger Clarkson,
Executive Vice President
Main office: Kungsträdgårdsgatan 2, Stockholm
Tel. 08-769 1000

Stockholm City

Manager: Hans Mikaelsson,
Executive Vice President
Main office: Kungsträdgårdsgatan 2, Stockholm
Tel. 08-769 1000

Western Sweden

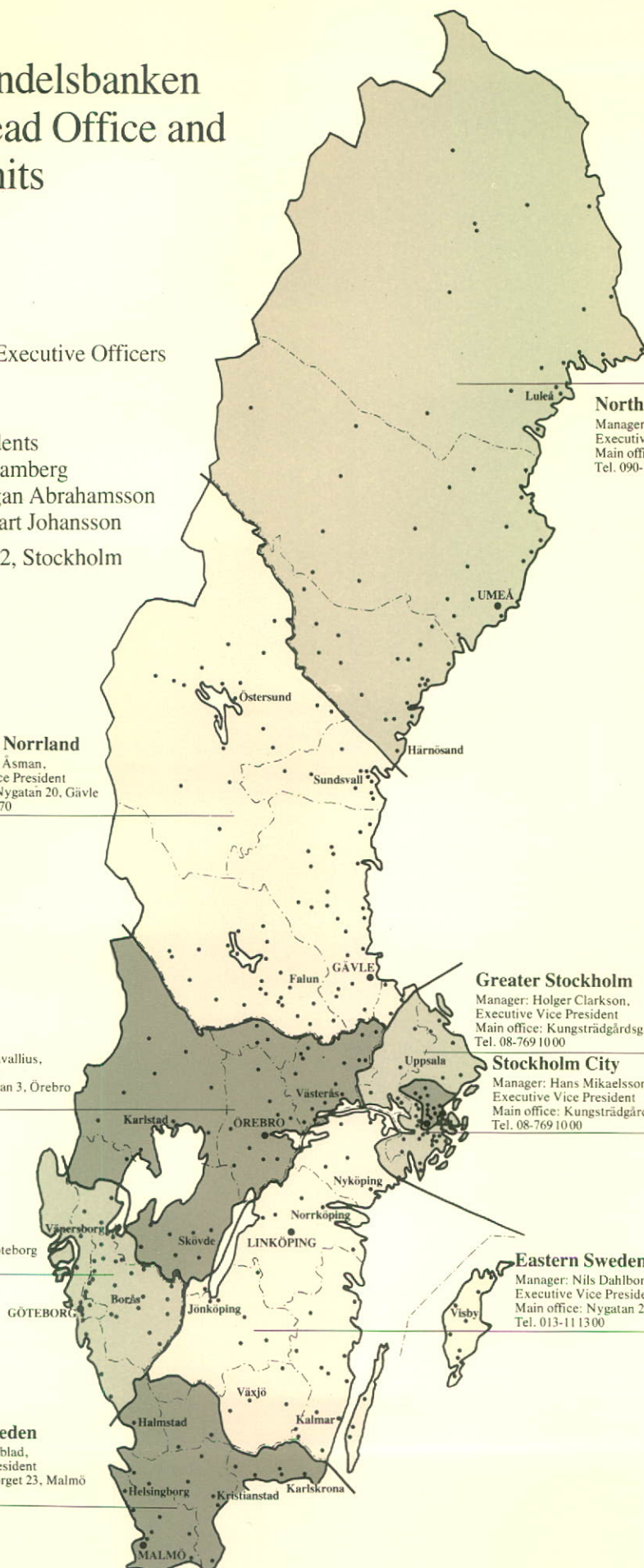
Manager: Björn Rosén,
Executive Vice President
Main office: Östra Hamngatan 23, Göteborg
Tel. 031-600000

Eastern Sweden

Manager: Nils Dahlbom,
Executive Vice President
Main office: Nygatan 20, Linköping
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Southern Sweden

Manager: Per Lindblad,
Executive Vice President
Main office: Stortorget 23, Malmö
Tel. 040-70200



International Division

JAN EKMAN
President and Chief Executive Officer

Credits and Financing

LEON ODNEVALL
Senior Vice President
– Long & Medium Term Credits
– Syndications
– Project Financing

Money and Foreign Exchange

SVANTE WIKSTRÖM
Senior Vice President
– Foreign Exchange
– Short Term Credits

Foreign Managers

Domestic Regional Units

Southern Sweden
BO FORSBERG
Vice President

Western Sweden
LARS WAHLSTRÖM
Vice President

Eastern Sweden
GÖRAN HÄGGQVIST
Vice President

Central Sweden
OLLE BJÖRNWALL
Vice President

Stockholm City
GÖRAN HELÉN
Vice President

Greater Stockholm
PER-ANDERS ÖBERG
Vice President

Southern Norrland
BO SEVELIUS
Vice President

Northern Norrland
ROLF BRUCE
Vice President

Marketing and Correspondent Relations

ANDERS LJUNGH
Senior Vice President
– Marketing/International Services
– Area Managers
– Representative Offices

Documents and Payments

STURE BRÅSJÖ
Senior Vice President

Control and Administration

NILS LARSSON
Senior Vice President

Central Finance and Investment Division

BO DAMBERG
Executive Vice President

Bonds and Domestic Money Markets

GÖSTA ALMGREN
Senior Vice President

International Issues

LEIF HEDBERG
Assistant Vice President

Equity Markets

BERNHARD NILSSON
Senior Vice President

Svenska Finans AB

**A subsidiary providing
international factoring, leasing and confirming services**

CLAES-OLOF LIVIJN
President

Marketing
TONY BERGMAN
Senior Vice President

Foreign Department
CARL-FREDRIK TERSMEDEN
Senior Vice President

MELKER PERSSON
Vice President

*International Leasing and
related services*
ROLAND LILJEDAHL
Senior Vice President

International Advisory Committee

Tore Browaldh, *Chairman*

Jan Ekman
Tom Hedelius
Jan Wallander

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